MAKING IT AT THE POST
GETTING A HANDLE ON AT&T

The Washington Monthly

JANUARY 1979/$1.50

THE BUDGET GAME And How To Win It.

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CITIVIEWS

CITIVIEWS is distributed quarterly to Citicorp investors. It contains viewpoints on timely public issues. We believe the following may be of interest to you...

Financial Competition

The American economic system is based on the premise that the public benefits from free competition and suffers from its absence. That is why we have antitrust laws. As the Supreme Court has said:

The Sherman Act was designed to be a comprehensive charter of economic liberty aimed at preserving free and unfettered competition as a rule of trade. It rests on the premise that the unrestrained interaction of competitive forces will yield the best allocation of our economic resources, the lowest prices, the highest quality and the greatest material progress, while at the same time providing an environment conducive to the preservation of our democratic political and social institutions.

The principle and the commitment seem clear. Equally clear, however, is the fact that scarcely a vestige of either the principle itself or the government's commitment is to be found at work in today's financial marketplace. On the contrary, if our entire regulatory structure had been designed for the sole purpose of suppressing competition, it could hardly have been more successful.

This is especially true of the preponderance of present laws and regulations concerning financial transactions.

Competition does, in fact, occur in the financial marketplace, but its extent and intensity are inversely proportional to the amount of government intervention; that is to say, those parts of the marketplace where the government's hand appears most often are precisely the areas in which we find the least competition.

Banking regulations have been based historically on the premise that protecting the depositor's money requires—and competition, and that in return for charters granting them a near-monopoly on money and credit, banks might reasonably be required to forego many commercial activities. It is now clear, however, that no such monopoly exists—if indeed, it ever did—and that regulations designed to shelter individual institutions have the long-range effect of handicapping the entire industry. Financial markets have been invaded in a major way by competitors from many other sectors of the economy. (Like most other developments in the present era, this invasion is occurring with unprecedented velocity.)

Commercial banking's share of the financial assets owned by financial institutions in the United States has dwindled from more than 57% in 1946 to less than 40% today. This is only part of the story, however, since it represents only changes in the market share within the traditional financial services industry. Equally significant are the activities of enterprises operating in the financial marketplace from bases entirely outside the financial industry.

Companies whose primary business lies outside the financial marketplace are able to generate assets and organizations in relatively unregulated environments. These assets and organizational abilities can then be brought into the financial marketplace, where they are used with growing success to compete against institutions like commercial banks, which are legally barred from engaging in any other "non-bank-related" activity. This is a one-sided contest that can only produce a steady erosion of the entire banking industry.

In early 1978, for example, two of the largest chains of retail stores in the United States had installment accounts receivable

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consumer installment loans of all American banks combined. Five companies alone accounted for more than one-tenth of all consumer installment credit in the country.

Several such companies have established strong positions in the insurance industry. Altogether, the finance-related profits accruing to these "nonfinancial" companies are large. None of America's more than 14,000 commercial banks, for example, equaled the 1977 *financial* earnings of the largest chain of retail stores; only three equaled or surpassed General Motors Acceptance Corp., and only eight rivaled Ford Credit Corp.

While the banks—and, indeed, all the traditional depository institutions—face mounting competition in the financial market from nonfinancial companies, they are also confronted with the fact that many companies are now bypassing the traditional market altogether. One of the most significant trends of the past 10 years has been the tendency of nonfinancial companies to bypass the banking system by writing IOUs to one another in the form of commercial paper. Since 1965, when short-term lending by one corporation to another was less than $1 billion, this business has soared to between $10 billion and $12 billion today, cutting out the banks along the way. When commercial paper held by such entities as insurance companies, money-market funds and foreign investors is included, the total rises to about $16 billion.

There is a certain irony in the fact that the traditional symbol of world capitalism, the commercial bank, in the United States has become one of the institutions least able to respond to a competitive, free enterprise environment. For the present competition in financial-service markets is not an equal contest.

As a public policy concern, however, the really significant question is not merely the adverse effects of the present regulatory situation on American financial institutions, but on the American public.

The consumer of financial services in the United States actually has no way of knowing whether his needs are being met in the manner most suited to his convenience and at the minimum possible cost, because artificial constraints and barriers in the financial marketplace have systematically barred free competition among both his suppliers of credit and the users of his money.

What the consumer does know is that credit seems to be most readily obtainable and convenient to use in the sector of the marketplace that suffers the least regulation. And the suspicion arises that services might improve still further, and cost less, if this sector of the market were not shielded from the competition of the more regulated sector, and vice versa. It is the individual's savings that are the original and, in fact, the sole source of capital, and it is the individual citizen from whom government derives whatever authority it possesses to regulate the use of that capital. If the Supreme Court was right in its assessment of how the economic interests of the citizen can best be preserved, then our present regulatory system is clearly not accomplishing its purpose.

* * *

Note: These remarks are excerpted from Financial Competition and the Public Interest, a new Citibank study of current trends in the financial marketplace. Copies may be obtained from the Distribution Section, Public Affairs Department, 18th floor, zone 02, 399 Park Avenue, New York, N.Y. 10043.

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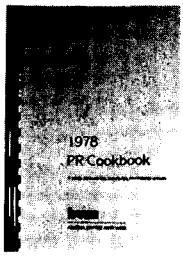

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Tilting at Windmills

The story by Lew Wheaton was datelined "Georgetown, Guyana (AP), Nov. 21." It began, "Survivors of the Jonestown cult suicide, menaced by flesh-eating piranha fish and other deadly perils of the jungle, eluded searching soldiers in the impenetrable Guyanese wilderness. . . . " The story went on to mention "a jungle filled with swamps. . . and electric eels." Wheaton mercifully failed to include "the hordes of man-eating jaguars" featured in some of the other dispatches from Georgetown. All of these stories were typical of what third-world veterans call missionary journalism. Missionaries used to stimulate the generosity of the parishioners back home by exaggerating the hardships of life in Africa or Latin America. A cleric comfortably sipping his gin and tonic on the terrace of his home in Kenya, gently caressed by 70-degree breezes in one of the world's most pleasant climates and looking at some of the world's most beautiful scenery, would write letters home that would bring tears to the eye, and cash to the collection plate, in a rural church in Mississippi, where the congregation would be sweating in 99 degree heat and 99-percent humidity. I remember my first much-dreaded trip to "the steaming jungle" of Central America. I found that much of Costa Rica, El Salvador, and Guatemala was infinitely more pleasant than Washington in the summer, and I resolved to return there whenever I could—remembering, of course, to give a martyred sigh to my colleagues as I departed.

Ask any economist why we don't use price and wage controls to stop inflation and he'll tell you they don't work. But, you protest, didn't they work during World War II and again during 1972? "Perhaps they seemed to work," he'll reply with a look of withering condescension, "but what happened after they were removed?" At this point, most of us remember that prices rose when controls were taken off, and we abandon the argument. We shouldn't give up so easily. Take another look at what really caused prices to go up after the controls were removed. Prices rose in the 1973-75 period not because there had been controls in 1972—which, by the way, held the price index to a 3.3-percent increase that year—but for three other reasons. First and foremost was the dramatic rise in the price of oil, which came because of OPEC decree. Second, the rise in food prices was strongly influenced by the Russian wheat deal of 1972, which caused temporary shortages here. Third, Nixon, who blamed his loss in 1960 on Eisenhower's failure to juice up the economy, gave the economy a massive infusion of money in the months before the 1972 election, which in turn helped stimulate inflation the following year.

The late forties were even more interesting. Did prices really rise

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simply because lids were taken off? The answer is again, no. They rose primarily because of shortages caused by necessary wartime policies that cut back the production of civilian goods. Autos, for example, were unavailable to civilians from 1942 to 1945. It wasn't that manufacturers couldn't profitably sell the cars within the price controls—it was that the car factories were converted to make vehicles for the war. So there was tremendous demand when cars came back on the market in 1946 and 1947, which caused a temporary shortage and a rise in prices.

But as soon as those shortages were taken care of, prices stopped rising. In 1945, under price controls, the price index rose only 2.3 per cent. Because of shortages, in 1946 and 1947 they shot up by 8.5 per cent and 14.3 per cent, respectively, but by the middle of 1948 there were plenty of cars and other consumer items to supply the demand. The result was that for the five years after price controls were removed, 1946-50, prices rose an average of only six per cent a year. Wouldn't you love to be hit with that rate of increase today instead of the 12-percent inflation we're enduring?

The opposition to price control is additional evidence of the terrible lack of empathy that characterizes the politics of selfishness. Put yourself in the shoes of a union leader and imagine how much easier price control would make it for him to persuade his men to go along with moderate wage increases. He could tell his members, "Look, you're not being screwed. The companies aren't getting rich from your sacrifices."

Finally, it is worth observing that price control is something the government can handle. When you're wasting billions of dollars on something called HUD—quick, now, describe for me exactly what it does for you and your fellow man—it's good to remember that during World War II the Office of Price Administration worked. It not only administered prices and wages but also the wartime rationing. Rationing, by the way, is how to handle the problem of shortages and threatened shortages, as in the case of gasoline.

Surgeons at the Cook County General Hospital in Chicago have been organized by the Amalgamated Meatcutters, according to Helen Dewar of *The Washington Post*. . . . "Speaker of the House Thomas P. 'Tip' O'Neill, in high good humour, was the guest of honor at a dinner given for new members of the House by the House and Senate Democratic Council at L'Enfant Plaza Hotel," reports Ymelda Dixon in *The Washington Star* of December 5, 1978. Noting that Rep. John Brademas was among the guests, Dixon explained that the House and Senate Council charges $1,250 for membership (with proceeds going to Democratic campaign funds) and is headed by a Washington attorney named Patrick O'Conner. Now just what do O'Conner and the other members get for that $1,250? Why no more than Tongsun Park, who you will remember put thousands into parties for O'Neill and cash for Brademas. Of Park, O'Neill said, "He has never asked me for a single thing," and Brademas expanded, "He has been gracious and kind to me and never asked me for a single thing." When you hear from all your mutual acquaintances that O'Neill and Brademas are honest, you also learn that "honest" in Washington means not taking tit-for-tat bribes. Knowingly allowing yourself to be used—permitting hustlers like Park to endow themselves with the appearance of respectability and influence through their association with you—is perfectly okay. . . .

Sometimes it seems as if the entire United States government is based on looking the other way. Remember the Army's first investigation of My Lai. They couldn't even see the bodies in front of their eyes. Now comes Jonestown, with that State Department officer—and believe me he is typical—who could talk to 60 people and not perceive any signs of discontent. You know he had to be

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brushing away those hands that were trying, as they later did with Rep. Ryan's party, to slip messages into his pocket. This is why Lt. Gen. Peers, the officer who finally dug out the truth about My Lai, is such a great man. He defied all bureaucratic rules by seeing honor not as the passive avoidance of lying but as an affirmative responsibility to discover the truth and to disclose it. They don't teach that kind of honor any more—not at West Point or anywhere else in the government. And that is why Peers' career, which had been on the full general track, was derailed because of his efforts. . . .

The same Ymelda Dixon column with the O'Neill-Brademas item contained another example of how Washington officials are used: "The President's personal secretary, Susan Clough, was at the Kennedy Center Sunday night with Fairfax Hotel owner John Coleman." Coleman, who has brought prosperity to local public relations firms, thus found another way—escort a person who is interesting to the press—to get his name in the papers. . . . The Securities and Exchange Commission has proposed that broker-dealers be required to disclose their profit in municipal and corporate bond transactions. They are resisting—massively. Here is what one, Lowell H. Listrom and Co., said: "Showing the amount of the profit on the customer's confirmation, we think, would make for hard feelings between the customer and the broker-dealer." As Leonard Curry of *The Washington Star* observes: "The investor might feel abused by seeing that a broker paid a transaction fee of $1 and charged the customer $10."

A small but telling example of the way the Carter administration repeatedly discovers the wheel is the fact that Jerry Doolittle was eased out of the White House speechwriters' office. Doolittle can write funny lines. This is a rare talent among speechwriters. Indeed, usually when such a person is found, he is treasured, permitted to report to work at 11 a.m., take three-hour lunches, and have a secretary whose physical attributes are her only apparent qualification. Soon the White House will discover this wheel and send out an urgent call for some writer to supply the humor Carter lacks. . . . Bruce McCabe, of *The Boston Globe*, took a look at our "Putting America Back in Business" issue (November) and pronounced it "a striking change in editorial sensibility for the liberal magazine." *The National Journal*'s Robert Samuelson came to the same conclusion in an article that was reprinted in *The Washington Post*. As our long-time readers know, there has been no startling change. From our earliest years, we've been running articles like "The Case for Entrepreneurs," "Why Entrepreneurs Have More Fun," and "A Harvard Man Discovers Free Enterprise." The reason is that we have always rejected the conventional left position that all business is bad. Indeed, looking at the lethargic bureaucracies of government and other huge organizations has convinced us that we need more of the entrepreneurial spirit that made the country great in the first place. . . . At the same time we have tried to keep our eyes open to the sins of business. See, for example, our article on AT&T in this issue.

Edward Bennett Williams has become a respected public figure through his skill at helping criminals evade the law. Here's his latest triumph and what it says about the American system of justice:

Williams' client, one Dominic F. Antonelli, Jr., was caught in what a jury found to be a patently crooked relationship with Joseph Yeldell, a former District of Columbia official. After the guilty verdict came in against his client, Williams began searching for ways to overturn it. He discovered that a juror had once maintained a small checking account in a bank involved in the case. The account had been closed for two years, and the juror said she'd

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forgotten about it, and there was no evidence that it had affected the verdict in any way. Still, Williams got his mistrial—from Judge Gerhard Gesell, the same genius who decided last month that it was a conflict-of-interest for the chairman of the Federal Trade Commission to take a stand against misleading advertising aimed at children.... To understand this month's error by Gesell, we again refer you to Michael Kinsley's article in our November issue, in particular to the section on "penny ante" conflicts.... But then contemplate this fact: If you are rich you can finance an extensive investigation of each juror in your case. Your investigators, if they go far enough, are almost certain to unearth something that will qualify as a conflict-of-interest to the judicial mind. If you're poor, of course, you can't finance such investigations. But even more scandalous—and why didn't the editors of either Washington paper or Judge Gesell point this out—all this information about Jones was available before the trial, when Williams could have moved to exclude her from the jury.... By the way, Hamilton Jordan, who vowed he would never be conned by the Washington establishment, has been sitting in Williams' box at the last two Redskins' games....

A spot check of six agencies by the General Accounting Office has found that they are owed $4.2 billion that they have not bothered to collect from grantees and contractors. Typical of the excuses given the GAO are, "heavy work load" (Commerce Department) and "did not have the time" (HEW). Anyone who has witnessed the 5 p.m. stampede of departing employees at these agencies will appreciate just how overworked they are. But if $4.2 billion is going uncollected by just six agencies, think what the figures must be for the government as a whole....

We have all noticed how often *Time* and *Newsweek* come up with the same cover, and if you watch the news on NBC, ABC, and CBS each night, you soon realize how similar their treatment is. If you also read *The New York Times* and *The Washington Post*, our two leading newspapers, you'll find the same similarity. What it all means is that, in one sense at least, Spiro Agnew was right. The important opinion-makers are cut from the same mold, they share the same attitudes, the same values, and the same response to the events.... The image of the hard-working, God-fearing, middle-class American sweating long hours to support the shiftless bums on welfare is deeply ingrained in our rich. But Michael Rappeport points out that the average American works a little less than four *minutes* per working day to pay for his share of welfare. That's right, a little less than four *minutes*. This reminds me of just how tiresome the Ronald Reagans can be.... Speaking of welfare, even the respectable press reacted like Reagan to the recent reports about the guaranteed annual income experiments. Such middle-of-the-roaders as columnists William Raspberry of *The Washington Post* and Charles Bartlett of *The Washington Star* announced that the experiments proved, in Raspberry's words, "There's only one bad thing about the concept [of the guaranteed annual income]. It doesn't work." (Speaking of media conformity, *The New York Times* chimed in with an op-ed piece saying the same thing.) It seems to me the true significance of the experiments was that the nightmare expectations of the conservatives were not realized. There were *not* massive defections from the work force. Given a choice between work and loafing, less than ten per cent chose loafing. This tells me not that the guaranteed annual income is wrong, but that we simply have to make a slight upward adjustment in its work incentives.

"How far can the GSA scandal go?" was the question *The Washington Star*'s Mary Ann Kuhn asked Vincent

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R. Alto, who just left his job as chief investigator of the GSA scandals. His answer: ". . . . it goes to the extent of involving the highest officials within GSA. . . over the past 20 years or so." Remember that one of the highest officials during much of that period was Tip O'Neill's friend, Robert Griffin, who is now in the White House. Alto went on to say that "it has involved a small number of members of the Congress. . . . a very small handful have had a controlling hand within GSA." If not honest old Tip, I suggest investigators might find it worthwhile to look at Hugh Scott, the former senator from Gulf Oil who was noted for his deep interest in GSA. . . . Scott, like Everett Dirksen, escaped negative notice in the press because he was a man of great charm and wit. One well-known reporter once told me, "Why, he's an expert on Oriental art," as if that should somehow make him above criticism.

I'm waiting for my fellow liberals to speak up in defense of David Sullivan. If you're saying "David who?", it's not your fault, it's theirs. Sullivan was recently fired by the CIA for giving information to Richard Perle, a top assistant to Senator Henry Jackson. The reason the liberals haven't spoken up is that Perle is a super-hawk and the information was useful to the anti-SALT forces. Liberals have been screaming for years about the need for Congress to inform itself about the CIA. A great liberal hero, Ernest Fitzgerald, was fired for giving information to the Congress. But that was anti-hawk information, exposing the cost overruns on the C-5A.

If liberals want the Fitzgeralds protected, can't they see that the Sullivans must be protected too? Senators and congressmen and CIA and Defense Department employees all work for the United States. We must remember that principle first, and we must help them remember it. Loyalty to one's own agency that keeps one from telling important truths about it to other agencies is one of the great problems of the United States government. . . . When I worked in the executive branch, I felt it was my duty to tell the truth *within* the agency; but I felt an equal duty to conceal the truth—when it made the agency look bad—from Congress and from its investigative arm, the General Accounting Office. I didn't begin to see how wrong I was until I left the government, founded this magazine, and started to look at the government from a citizen's instead of an insider's perspective. But my attitude while in the government was a common one, and it remains common today. That is why it is so important for liberals to wake up to the significance of the Sullivan case. You may not like Perle or the cause served by Sullivan's information. But the precedent that a government official can freely transmit information to congressmen and their staffs is crucial to open government. . . In the last ten years the size of the congressional staffs has doubled, mainly because, through the eye-opening experiences of Vietnam and Watergate, Congress realized that the executive branch was concealing a lot of information. But is continual growth of congressional staff a sensible solution to the problem? Soon we'll have another huge bureaucracy on Capitol Hill. . . . If you read Leonard Reed's "The Budget Game and How to Win It," in ths issue, you'll see that a similar problem exists at the Office of Management and Budget. How can it monitor the entire executive branch without becoming a giant itself? And the same dilemma crops up in the government's attempts to control AT&T, as Marjorie Boyd tells us on pages 37-47. How can we find out what these vast organizations are doing and determine whether what they are doing is in the national interest? One way is to encourage the Fitzgeralds and Sullivans. Another, as Joseph Nocera suggests in "Making It at the *Post*," is to enlist our great newspapers in the task.

—*Charles Peters*

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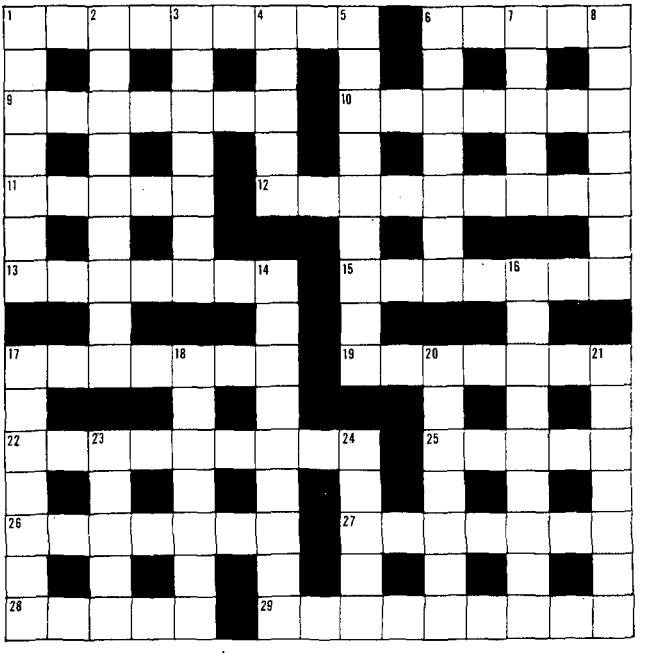
the political puzzle

by John Barclay



ACROSS

1. Crazy place is no jest now. (9)
6. Sects in difficult situation. (5)
9. Sure to react in special way. (7)
10. Confused dope who made loud noise. (7)
11. Maintained position during wild to-dos. (5)
12. Sad sister leads to much unhappiness. (9)
13. Moves in for chocolate? (7)
15. Stops apprehensions? (7)
17. Repeat a so very version. (3,4)
19. Wrote encyclopedia in candid erotic style. (7)
22. Crave ride with mad racer. (3,6)
25. Hit? Get your gun! Hit again! (5)
26. Let fib fail to upset court official. (7)
27. Forgotten time. So later appears. (4,3)
28. End around hated. (5)
29. Try out hear in reflected light beam. (9)

DOWN

1. Presidential hole in Wyoming. (7)
2. Ellen's voyeur moved cautiously. (9)
3. Watergate footwear with note in it. (7)
4. What he had arranged Down East. (5)
5. Send wants somehow to kiosk. (9)
6. Twice madder would be a traitor. (7)
7. Confused pleas for pause. (5)
8. They get hurt crossing said streets. (7)
14. Ivor frets wildly to try to achieve. (6,3)
16. Runners from Guttenberg in a ship. (9)
17. Killed bats around cot. (7)
18. Without letter, paint would disappear. (7)
20. How low can Israel get? (4,3)
21. Elation about digital growth. (7)
23. She is found in American bookstores. (5)
24. He is found in rural phone booths. (5)

The numbers indicate the number of letters and words, e.g., (2,3) means a two-letter word followed by a three-letter word. Groups of letters, e.g., USA, are treated as one word. Answers to last month's puzzle are on page 35.

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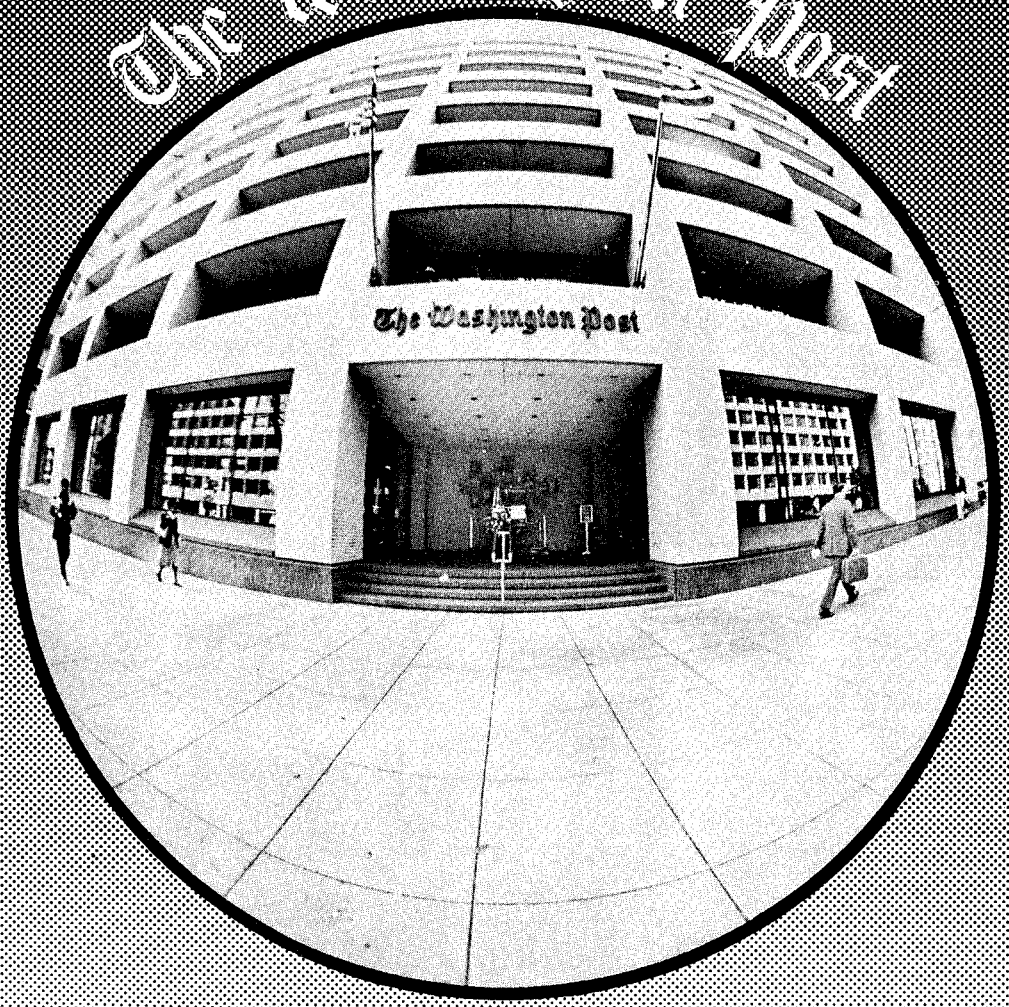
This is a story about *The Washington Post*, but it begins with a personal note. Before coming to *The Washington Monthly*, I was a daily reporter for a small, now defunct, Washington news bureau called Capitol Hill News Service, writing stories for a handful of Pennsylvania papers that you've never heard of unless you live there. All of us at the news service had the sense that we were doing

Making It At The Washington Post



By Joseph Nocera

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something valuable—providing, at nominal fee, news that small newspapers had no other way of getting. We stayed away from the Washington glamour beats, like the White House, and instead looked at how actions taken in Washington affected the local communities we wrote for. In particular, we kept tabs on the local congressmen—what they were doing, how they were voting, what stands they were taking. We were described as an experiment in journalism, written up in *Columbia Journalism Review*, and it all seemed terribly worthwhile.

Then a funny thing happened. The editors at one of our largest papers, one of the few that paid us a healthy fee, decided our brand of journalism was not exactly what they had in mind, so while keeping us, they also hired our competitor. Taking on a rival news service was a rather strong hint that we were in trouble with a paper we couldn't afford to lose, but worse still, it became very clear very quickly that the editors liked the stories they were receiving from the other service. This was obvious from the "play" their stories were getting—mostly, they were on the front page or close to the front—and it wasn't long before I wised up and entered the fray on their terms. I soon became obsessed, in a way I hadn't been before, with getting *my* stories on the front page. As a result, the kinds of stories I pursued changed dramatically. I wanted stories I could chase down in a day; otherwise a front-page opportunity would be squandered. I went after anything that hinted of scandal, knowing this was what those editors wanted. When the roof began to fall in on Rep. Daniel Flood, I worked hard to get a piece of that story, coming up with new angles or new twists so that the paper would use my version over that of *The New York Times*, *The Washington Post*, *The Washington Star*, the wire services, or my competitor, who were all hot on the trail of Flood. This is the kind of "pack" story I would have gone to great lengths to avoid previously, knowing full well that there wasn't much fresh I could add to a subject that had the attention of so many other reporters. My strategy worked, and even if the original purpose of the news service became obscured in the process, my by-line appeared as regularly on the front page as that of my competitor.

Except that I may have burned out faster than any reporter in history, there are similarities between my experience at Capitol Hill News Service and that of a lot of young reporters newly arrived at *The Washington Post*. In the beginning, they come to work flushed with enthusiasm, brimming with self-confidence, and usually touched with some sense of journalistic idealism. Soon enough they come to realize, as I did, that there are other forces, institutional forces, at play in the newsroom that define how they do their jobs and how successful they will be at the paper. The combination of these internal forces creates what can be called the "culture" of the *Post*. And because these forces affect the way reporters think, and the stories they write—again, as they did to me—they have a great deal to do with what we read in the *Post* each day.

A Foreign Country

It's a buyer's market in journalism, and that is especially true at a prestige paper like *The Washington Post*. In 1976 the *Post* had 162 reporters and 129 editors in its employ; it received more than 2,500 applications for editorial staff positions; it hired 18 reporters and editors. It is a place to which many aspire and for which few are chosen. To become a reporter for the *Post*, it helps to be young (editor Ben Bradlee is a believer in the cliche that journalism is a young man's game) and to have made a big splash at a smaller paper.

A few years ago, it also would have helped if that smaller paper was *The*

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Trenton Times. The *Post* bought *The Trenton Times* in 1974 and soon thereafter sent Richard Harwood, who had been the *Post*'s national editor and ombudsman, to Trenton to edit it. Since it was well known that Harwood would be back at the *Post* sooner or later, and that he would be one of the top editors (he is now the number three man, behind Bradlee and managing editor Howard Simons), the *Times* became a natural magnet for young reporters who wanted to make it to the *Post* but lacked experience. Now that Harwood has left Trenton, there is a feeling among *Times* reporters that fate has taken a cruel turn, but when he was there, the attitude was that the sky was the limit. That attitude has turned out to be justified; since returning, Harwood has hired eight reporters from the *Times*.

The way *The Trenton Times* was run under Harwood has a lot of parallels at the *Post*. First, the people Harwood wanted on his staff were smart, aggressive, self-confident, and extremely ambitious. He was, and is, a man with a genuine talent for finding gifted young reporters—and he has, on occasion, chased after young writers who have never spent a day in a newsroom because something told him that they could do good work for him.

Once you signed up, you were expected to be part of the team—Harwood had no time for whiners or complainers. If you argued once about a story you were being aggressive, and that was all to the good. But there was a line you could cross, by complaining too loudly and too often, or by refusing to accept gracefully a final decision by your editors—after which you were labeled a pain-in-the-ass.

None of these young reporters wanted to spend a lifetime in Trenton; on the contrary, the sooner they could write their way out of there, the happier they would be. They looked upon Trenton as if it were a giant playground and wrote about it as if it were a foreign country. There was an exhilarating feeling among the staff that they were on the *Post*'s farm team—Harwood encouraged that—and they all wanted to hit home runs every time up. According to people who worked for the *Times* then, sometimes they succeeded in this, while other times the journalism was condescending and mean. The emphasis was on the things newspapers have traditionally valued—on the scandalous (particularly of the small-fry variety, like massage parlor exposes) or on what the mayor or city council did yesterday, and on brightly written features. The implicit understanding was that writing the stories Harwood wanted would have important career benefits, while bucking the tide could mean an assignment to the limbo of the obituary page.

What was sorely lacking, say a number of former *Times* reporters, and what the citizens of Trenton came to resent greatly, was any sense of responsibility towards or kinship for the city of Trenton, or any feeling that the reporters were there to meet the needs of the city through the pages of the *Times*.

Making a Splash

For the reporters on the *Times*, *The Washington Post* was a tangible goal; at the *Post* a national staff position provides the same kind of incentive. The bulk of the new reporters start on the Metro staff, and the *Post* management encourages them to view Metro, which consists of the local news desks for suburban Virginia and Maryland and the District of Columbia, as a means to an end rather than an end in itself—as a way of making enough of a splash to get promoted to the foreign or national desks. It's no surprise that that's a common attitude among reporters in this city; usually they are attracted to Washington in the first place because that is where so much of the *national* action is in journalism, not because they have a burning desire to cover a bus strike in Washington.

"During my interview," remembers

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one reporter, since departed from the *Post*, "they kept asking me things like, 'Do you want to get on the national staff?' and 'Where do you want to be in five years?' Obviously that was very important to them. It was as if they wanted to be sure I wouldn't be very happy doing what I was being hired to do."

And the people being covered know it. A few months ago, *Post* publisher Katharine Graham and her son, general manager Donald Graham, along with Bradlee and most of the reporters and editors who cover suburban Virginia, attended a session at a local hotel where they fielded questions from Virginia residents about the *Post*'s coverage. One question kept popping up: "Why," Bradlee was asked, "do you keep sending interns to cover us? Why do we get all the new reporters?" While the reporters present shuddered inwardly, the questioners brought up the name of Helen Dewar, a reporter who had covered suburban Virginia for about 15 years before being given the labor beat on the national staff. *She* was the kind of reporter they appreciated, one who knew the territory, who knew everyone's name, who didn't have to be given a refresher course on Virginia politics every time she wrote a story.

Since the general attitude of most everyone on the *Post* is that Metro is the bottom rung, reporters hope the right combination of talent and luck will allow them to impress enough editors for them to move upward. To do that, they have to know what kind of stories the editors are looking for and to provide them regularly. Not everyone, of course, makes it off Metro, and of those who don't, some become resigned to it—accepting their fate, perhaps admitting they lack the ambition or drive or talent, or insisting that they really prefer to cover local news (and indeed, some of them do). Others become embittered and resentful, and as a result, there is both discord and deadwood on the Metro staff, two of the natural by-products of thwarted ambition.

It is a reflection of the way the *Post* looks upon local news coverage that Leonard Downie, Jr., a talented reporter and editor, was recently reassigned from his position as Metro editor to London bureau chief. Never mind that as Metro editor Downie should have been a man of great power and prestige—he was, after all, running the single largest division of the paper—or that London had long ago ceased to be a city where important news was made regularly—the assignment was obviously a promotion for him. The newsroom gossips had it that London would be a final training ground for Downie, a chance to be a foreign correspondent in a sophisticated city before heading on to bigger and better things at the *Post*. There are a lot of American editors who remember London in the old days, when it was a city full of excitement and news for a young reporter, and when nights were often spent pleasantly brushing up against British society at embassy parties. These were the war years and after, when a lot of the legends in American journalism, the Ed Murrows and James Restons, were making names for themselves. Nostalgia is one reason why London is more important on the career ladder at the *Post* than running the Metro section. That, and the unspoken feeling that a tour of duty in London will somehow make a reporter who has made a career of mining stories in the streets of Washington more worldly, more refined, or maybe just more comfortable at Kay Graham's dinner parties. But that didn't bother Downie. He was happy to be going, he had told friends at the *Post*, and no one attuned to the politics of the newsroom could miss the implications of the assignment.

When Downie first came to the *Post*, he went about establishing a reputation as a solid reporter who was not afraid to make investigative forays. Not coincidentally, that is also a good way to go about attracting the attention of *Post* editors. The *Post* places a good deal of stock in stories

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exposing wrongdoing.

There are other ways to catch the right eyes at the *Post*, of course: bright and lively writing is a valued commodity (one way, incidentally, the *Post* differs from its arch-rival, *The New York Times*, where flamboyant prose is deemphasized in favor of duller, but more fact-filled, sentences). There have always been complaints around town from competing reporters that these *Post* stylists are not above twisting a few facts in the course of turning a neat phrase, but generally that is hard to prove and has the ungracious ring of sour grapes.

Latching on to a hot local political race is another way to get ahead at the *Post*. Politics is still the bread and butter beat, and a coveted assignment on most newspapers, and the *Post* is obsessive about its political coverage. For a political junkie—and Washington is full of them—that is good news. Around election time, virtually the entire national staff hits the campaign trail, reporting on races from all over the country. Bradlee, according to several people who have seen him in the daily news conference, brightens up when he hears about a good story on a political fight, offering suggestions and angles, something he rarely does otherwise. "You've got to love politics if you plan on going places at this paper," says one *Post* Metro reporter.

A Gritty Struggle

Of all the reasons why the culture of the *Post* encourages the writing of certain stories, the most important is whether or not the story will have a chance of making the front page. Working for the *Post* is first and foremost a gritty struggle for front page play; in the Bradlee regime, that is how success is measured and careers made. Since the *Post* is not a newspaper inclined to give its staff much counseling or guidance (even summer interns are expected to sink or swim on the basis of their own initiative), the process of doing well means figuring out how best to crack the front page and how best to return there often. It is something ambitious reporters must learn quickly and almost entirely on their own, and no one learned faster than Bob Woodward.

Woodward had flunked his first try-out at the *Post*, writing a handful of stories that were never printed, so on his second try, after he had been hired from the *Montgomery County Sentinel*, he wanted to make a quick impact. He did. In his paean to investigative reporters, a book called *The New Muckrakers*, Downie describes Woodward's modus operandi as a member of the Metro staff:

"Overlooked city government offices seemed a good source of stories [to Woodward]. 'I sat down with a D.C. government directory,' Woodward said, 'and went through it department by department to see what they were doing.' When a telephone call produced an interesting lead, he went out to see the bureaucrats and go through the records himself, often on his own time."

Woodward ignored most of what Washington's bureaucrats were telling him except their leads about scandals. Consequently, *Post* readers learned little of what Woodward had discovered about the

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inner workings of local government, although Woodward had himself a slew of exposes: illegally fatty meat being sold in grocery stores, restaurants failing health inspections, police officers illegally parking their private cars in a ghetto neighborhood. In the nine months before Watergate, Downie writes, Woodward had more stories on the front page than all the other Metro reporters combined. (One day, in a story meeting, Bradlee is supposed to have asked: "Who is this guy Woodward? He's all over the paper." There is no higher praise at the *Post*.)

Similarly, when another reporter, Ron Kessler, discovered three years ago that some of America's largest banks had been put on a secret list of problem banks by the Comptroller of the Currency, the *Post* had a field day running bank stories. There were a number of follow-ups by Kessler and a rising Metro reporter, Charles Babcock, who covered a series of congressional hearings on bank troubles. Then the scandal faded, as they eventually all do, and Kessler and Babcock went on to other things. The subject of banks dropped off the front page and back to the financial pages, where it was covered as it always had been—routinely. It wasn't that the subject of banks was any less newsworthy—certainly there were dozens of important stories the *Post* could have written about banks—it was just, well, the smell of scandal wasn't there anymore. Reporters lost their incentive to write about them; the subject didn't fit comfortably into the *Post*'s daily news coverage; it wasn't going to get on the front page; it wasn't going to help anyone's career.

More than Yesterday's News

Since there are not always scandals or hot political stories in the offing, the *Post*, like any other newspaper, relies on the "beat" system to keep its pages filled with news each day. On the national staff, this means that one reporter is given the responsibility of covering whatever news emanates from, say, the Justice Department; on Metro, the beat might be D. C. City Hall or one of the suburban counties. And at the *Post*, like most other papers, this system is full of constraints and limitations.

There is, first of all, pressure to produce stories in quantity, preferably a minimum of one story a day, and this takes its toll in quality. Second, most beats concentrate on what the top officials are saying or doing. Certainly this ought not be ignored, but it is often written about to the exclusion of everything else. Then there's the problem of access, since beat reporters need to keep open lines of communication to get at the news. That need can subtly influence the reporting. (On the national staff, this is especially true. Since they have already risen to the top, there is no frantic need to come up with scalps in order to get on the front page. There is a need, though, to be able to come up with a steady stream of stories about their beats. If they have access to the top people, national beats usually provide more than enough breaking news every day to keep reporters very busy—and on the front page.)

In addition, beat reporting, especially on the Metro pages, can get awfully tiresome after awhile. Bradlee, according to several former *Post* editors, is bored to tears by his own Metro section, but has never been willing to do anything to change it. His main strategy for putting out a good newspaper is anchored in the belief that if you hire the best writers and reporters you can find, your paper will be better than the other guy's because your talent is superior to his. The corollary is that the way to keep your staff motivated is not through the inherent excitement and interest in the news they are covering but through the internal competitions, those steps up the career ladder, that reward those that do well.

That competition surely produces hustle and has a lot to do with the scandals the *Post* does break. But it

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also engenders resentment, suspicion, and tension, and causes reporters, for example, to hold back on tips and information that might be helpful to colleagues. Even the *Post* Metro editors are thrown into the competitive cauldron, where, much like their reporters, they must vie for a piece of the front page to prove their worth.

Putting in a stint on one of the Metro desks as an assistant editor can be an important stepping stone at the *Post*. The theory is that no one should spend time behind the desk who hasn't reported. The theory also is that deskwork, since it is not as glamorous as reporting, requires a sense of loyalty to the paper that reporting doesn't, with its by-lines and immediate ego-gratification. Loyalty is valued highly among the people who run the *Post*. (In 1974, Downie passed around a memo to new reporters listing "things the city desk has every right to expect" from them. Number eight on the list: "Be completely loyal to the newspaper, especially in private conversation with news sources, fellow staff members and other friends, never grousing or complaining.")

Competing successfully as a Metro editor means getting good stories—the scandals, the political fights—from *your* batch of reporters, and getting them on the front page. It takes, in a word, salesmanship as much as it takes editing. The more stories editors can sell for the front page, the more they'll be seen as doers, movers, developers of talent. It leads to almost an auctioneer atmosphere at the *Post*, which can make for a lot of overselling of stories, and playing stories of dubious value better than they deserve.

(A reporter for a Maryland paper was sitting in the press room in the Maryland State House earlier this year reading a *Post* story about a State Supreme Court verdict that he had also covered. The story said the verdict had had a larger impact and had made a more sweeping judgment than was actually the case. "That's not what happened," he said out loud to no one in particular. From the corner of the room came the response: "That's not what I wrote either," said the *Post* reporter who had written the story. His editors had taken some liberties to sell the story that hadn't been justified by the facts.)

Connecting Washington and Trenton

What is missing most of all in the newsroom is any sense of shared mission. In this kind of atmosphere, it is hard *not* to resent the reporter who is doing better than you are and is getting a bigger share of the *Post*'s pie. An important reason for this is that each reporter feels limited by what there is "out there" each day that the *Post* wants covered. There are only a finite number of stories to be gathered in a day, only so much news "breaks." Eventually, for beat reporters especially, the news starts to feel dull, stale, and repetitive.

But the news doesn't have to be dull or stale, if only the *Post* would value a different kind of story, and if its reporters were encouraged to get beyond yesterday's news. There could be a sense of mission if the *Post* wanted reporting that tried to explain why things don't work as well as they should. There is a tremendous need in journalism for a reporting that does more than break scandals and tell us what officialdom did yesterday. As government and all the other giant institutions that rule our society have become larger, more complex, and more perplexing, newspapers have not kept pace. Our papers should be helping us sort it all out—telling us which government programs work and which don't, where tax money is being spent wisely and where it is being wasted, how our instititutions are helping us and how they are hurting. We need to connect what happens in Washington to what happens in places like Fairfax County and Trenton. But this kind of reporting requires a journalism that is more subjectively analytical than the traditional newspaper ethic of objectivity has allowed. It is therefore something

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foreign, if not repugnant, to the *Post*'s conception of good reporting.

Richard Harwood is one who feels that way, for he, as much as anyone at the *Post*, worships at the altar of objectivity. He began his newspaper career in the late 1940s at *The Nashville Tennesseean*, where he saw firsthand the evils of partisan reporting. "Our function [at the *Tennesseean*] was to elect to office the people the publisher wanted elected," he has said. Because he has seen the abuse of biased reporting and it made such a strong impression on him, he measures the integrity of a newspaper by how little bias creeps into its news columns. Certainly that's important—a newspaper's first priority is to give us that front-page news, to tell us what happened yesterday, fairly and accurately.

Unfortunately, Harwood's past has blinded him to the rich possibilities of a more thoughtful, more subjective kind of journalism, even if it were to be properly labeled as such. There is a deathly, almost irrational fear in journalism of analyzing and coming to conclusions. "Suppose I was assigned to analyze the HEW budget," says Harwood, "to find out where there was waste and how it could be cut. I just wouldn't feel *qualified* to do that." Although journalists at the *Post* are extremely bright people, there is that same belief that somehow they are qualified only to tell us the *what* of events and leave they *whys* to the "experts" they so dutifully quote. Thus Bradlee and Harwood, who hire all sorts of wonderfully gifted writers and reporters, insist on separating good writing from good thinking. Writers and reporters are prodded and pushed at the *Post*, but it is to get them to be more clever with their prose, or come up with front page news, or else it's in the "what-have-you-got-for-me-today" vein. There is not, at the *Post*, the kind of give and take between reporter and editor that would result in original, analytical reporting—stories full of ideas and conclusions.

There isn't any better indication of what the *Post* is missing than what was revealed in this story, published, ironically enough, in the *Post* itself, last October 1. It began:

"Americans aren't nearly as angry at how much they have to pay in taxes as they are at how little they get in return, a national poll by *The Washington Post* suggests.

"The results indicate that the so-called 'tax revolt' across the country is aimed less at taxes than at the quality of government employee service, which most people perceive as poor."

The *Post*, in effect, was pointing out in this story the kind of news it was not giving its readers, although it was something readers obviously cared about. The *Post* polling reporter, Barry Sussman, had put his finger on something pretty basic, but not often articulated, about the way Americans feel about their government. Yet the *Post* would have been performing a far more valuable function by explaining *why* government service was so poor, and where it was poor, instead of reporting the simpler fact that people thought it was poor.

A few other examples of reporting the *Post* could be doing come to mind:

• A few years ago, Barbara Sizemore was the Superintendent of Schools in Washington, and the Board of Education was trying to fire her. It was a story the *Post* was all over—a

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good political fight, with plenty of charges and countercharges, hearings and votes—and most of the coverage made the front page. But what was happening inside the schools? Why were Washington's teachers so uniformly mediocre? What was being taught? Why weren't kids learning? Seldom could these stories be found in *The Washington Post*.

• *Post* reporters could also look at City Hall the way Woodward did not, by reporting what the bureaucrats did all day, whether their time was well spent or wasted, what city government departments were featherbedded and which ones were effective and how they could be improved.

• The concentration on beat reporting in the suburban counties means that *Post* reporters are missing a whole range of stories that could help explain how our government works. By using Arlington and Prince George's counties as barometers, reporters could discover whether a federal program was doing all the wonderful things some spokesman in Washington was attributing to it. They could tell us about welfare in ways much more meaningful than by covering the latest from Capitol Hill and HEW. *Post* reporters could find out for themselves whether there was welfare fraud and how widespread it was, whether there were people unjustly denied benefits, whether welfare really did keep able-bodied people from working, and they could help us figure out how to make the welfare system work better.

The fact is, if the Metro staff reporters put their minds to it, they could tell us a lot more about what's wrong with an agency like OSHA—by examining its impact on firms in the *Post*'s coverage areas—than all the dozens of Labor Department and Chamber of Commerce reports put together.

And it wouldn't be as dull as those reports either. This kind of good, analytical reporting would mean getting beyond the surface, looking at what people do in real life situations, which is some of the richest material imaginable. If the subject was OSHA, it would mean talking to the businessman about his problems, but it would also mean figuring out how much of his "paperwork burden" was genuine and how much is rhetoric, which regulations were foolish and which ones the businessman complained about actually made sense.

To get this kind of reporting, of course, a lot of what it takes to make it at the *Post* would have to change. Traditional beat reporting would need to be deemphasized somewhat. (Harwood himself says, "A lot of what goes on here, having certain buildings covered all the time, is just done because it has always been done like

that".) The editors would also have to value and encourage this non-front-page journalism, and prestige would have to be attached as much to the analytical story on page eight as the scandal on page one. But above all, they would have to make judgments. Telling people what's wrong with OSHA means coming to a conclusion. Reporters should be encouraged to take on the responsibility of making those judgments, based on what they have learned in the course of reporting, rather than simply giving us "on-the-one-hand-on-the-other-hand" quotes that come with objectivity.

At the *Post*, because this kind of problem-solving journalism is not

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defined as "news," the tentative steps reporters do take in the direction of "in-depth" reporting *are* often dull. The *Post* is always running some "enterprise reporting"—long stories or three-part series. While some of these stories are fresh and interesting, many more suffer under the constraints of objectivity, because instead of taking us from problem A to conclusion B, the stories simply link together more facts, more color, more background, more lively writing, but not more thought.

When Nick Kotz, the Pulitzer Prize winning reporter, came to the *Post* in the early 1970's the plan was for him to work entirely on longer stories. Kotz was a very good reporter, but most of the stories he did were overly long, cluttered with facts, and constrained by the need to be objective and non-analytical. As a result much of his work went unread. When he left, finally deciding that since he wanted to write magazine pieces, he would be happier doing them for magazines, the *Post* was not especially upset to see him go. The experiment, it was decided, had been a failure. Rather than pushing to do it right, Bradlee and Harwood instinctively leaned the other way—back to more hard news, to the simpler stories that fit easily in the objective mold. While they were right when they realized that so much of the *Post*'s in-depth reporting is devoid of anything fresh, they were wrong when they concluded it can't be done any other way.

Indeed, *Post* editors are so locked into believing that beat news on Metro has to be boring that they use it as a way to punish reporters from the national staff who are out of favor or whom the *Post* is trying to get rid of. "They gave me the courts," says one former reporter. "I had done the courts before, I could cover the courts blindfolded. I got the message." The message was not that he should go beyond writing about indictments. It was that they were tired of him.

One of the first things new reporters notice about the *Post*, particularly if they have come from smaller papers, is the lack of camaraderie in the newsroom. The clique of friends is small, and the atmosphere in the newsroom is quiet, subdued, business-like. Gone forever are the days of *The Front Page*; big-time journalism isn't like that anymore. "It was like what I would imagine working for IBM is like," says one former reporter. "A lot of people with briefcases coming to work, doing their jobs, staying late, and going home at night." Once, soon after the *Post* moved into its new building, Carl Bernstein brought in a ping-pong net and some paddles, strapped the net across one of the *Post*'s large new desks, and started playing ping-pong in the newsroom with another reporter. Within a few minutes, managing editor Howard Simons was out of his office, telling Bernstein to put down the paddles and get rid of the net. That wasn't done at the *Post*. It is not a place for high spirits; rather, it is a newsroom full of responsible people working very hard for their $29,100 (the average *Post* salary). Carl Bernstein wouldn't get an internship at the *Post* today were he to apply. For one thing, he doesn't have a college degree, and it's rare that a reporter will start at the *Post* anymore without one. When an editor once mentioned this to Donald Graham, troubled that the emphasis seemed to be more on people with law degrees or master's degrees, who had less and less in common with the people they were supposed to be writing for, Graham smiled and replied: "Yes it is nice that these people want to work for us."

Bernstein also would be considered today to be too flaky, too irresponsible. There aren't many characters left at the *Post*, it hasn't the inclination to handle them no matter what their talents—except for Maxine Cheshire, who is tolerated because every now and then she will land a big scandal, as she did with her Korean influence-peddling stories. (Although, said one reporter, she has a problem knowing exactly what to do with the story once she's got it. "If Carter took $1 million

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from a businessman dropped off by a chauffeur who was gay," said this reporter, "Maxine would want to write a story headlined, 'Carter Linked to Gay.' ")

To do well at the *Post*, it's good to have some of the qualities Bradlee sees in himself and likes to see in his reporters: a tough exterior, an almost brazen self-confidence, quick with a wisecrack or smart joke, and, most of all, a lack of passion. To show passion is to somehow be soft, and untough. It's unseemly. In the same sort of way lawyers place the "legal process" above any abiding interest in right or wrong, seeing themselves purely as advocates, journalists see a need to stay uninvolved in the world around them, to never take sides. It has been said of Bradlee that no one in the newsroom has any idea if he believes in anything besides *getting the story*. There is a fear that taking sides, having a sense of passion, will mean biased reporting.

Sometimes it can mean precisely that. Once when he was ombudsman, Harwood had a group of reporters and editors to his house one night and began complaining about the *Post*'s liberal image. Too many reporters had become caught up in the excitement of the counter-culture, he said (this was in the early 1970s), and too many news stories were reflecting this. He had a list of them: stories about protests, about radical lifestyles, about priests leaving the priesthood. He had been counting the column inches in the paper over the past few months devoted to the counter-culture, and by his count, the preponderance of stories were about, and portrayed favorably, the radicals.

Harwood was right about this—it had reached the point where anything that had been in the *Village Voice* six months ago was more than likely to show up as a story in the *Post* tomorrow. His solution was his instinctive one: to draw back, to cover other things, to forget about the counter-culture for awhile. He wasn't willing to encourage his reporters to discriminate between what was right about the counter-culture and what was wrong, what was frivolous and what would have lasting significance. Again, these were stories that would have meant thinking about the counter-culture instead of mindlessly writing every story imaginable—*it would have meant taking sides*, but in a constructive, sensible way.

The Team Player Syndrome

The competition of the place notwithstanding, the culture of the *Post* also produces the team player syndrome, as strong at the newspaper as in any government bureaucracy. In this way, the *Post* is no different from any large institution or business, where the people who agree with and conform to the wishes of their higher-ups, who have the same set of values, will find that this is helpful in their own career climb.

In its long-running dispute with the *Post* management, the newspaper guild, (the reporters' union), has tried to make an issue out of a phrase management once used—"unmanageable free spirit." The term was never defined, but reporters knew what it meant. Those who produced for their editors, who gave them page one copy, who stayed late after work to come up with scandals, were the team players. Those who argued and fought for stories the editors killed, or who didn't produce enough deadline copy, or who had a habit of not coming up with as good a story as the editor had sold in a story conference—these were the unmanageables.

On the Metro staff, there's no percentage in becoming labeled as unmanageable. Put another way—and a number of Metro reporters put it precisely this way—no one who has ambitions at the *Post* wants to get a reputation as the next Morton Mintz. When Ben Bradlee first became editor, Mintz was one of those who felt especially freed by the new management style. He was left alone to go after the stories he always wanted to do. Mintz was undoubtedly as scandal

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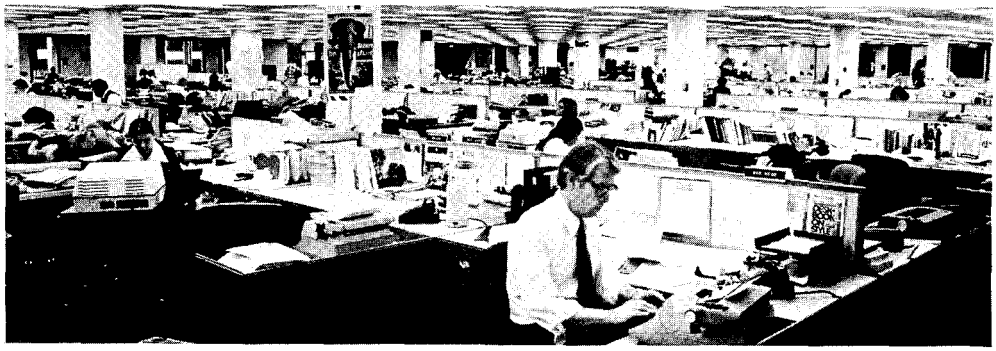

oriented as any hungry Metro reporter today, but he was going after a different kind of scandal. Mintz was not nearly as interested in political corruption as he was in federal agencies and corporations. He was one of the very few at the *Post* willing to take on the Washington establishment—or to go after, for example, the companies that manufactured the Pill and the agency that regulated its use.

Outside the *Post* this gained Mintz a reputation as a fearsome and fearless reporter, practically a role model for journalism students, and it has brought him much-deserved acclaim and honors. Inside, it eventually got him a reputation as the biggest pain-in-the-ass on the paper. Because of his outside reputation, Mintz had virtual job security; inside, he had the constant feeling of banging his head against the wall. Part of the problem was that his stories did take some effort to read after the fifth or sixth paragraph. He was giving us important information, but it wasn't written with any particular flair, didn't have any of the things that would grab a *Post* editor. His stories also didn't have any of the thought and analysis that could have told us the *reasons*, for example, why the FDA was allowing some dangerous additive on the market. Mintz was a reporter's reporter, for sure, but he was also constrained by that ideal—he was writing about things that often could have used more analysis and understanding than he could give them in his role as an objective newspaper reporter.

By the mid 1970s, the *Post* was changing, becoming a less freewheeling paper than it had been, and Mintz began to find it increasingly difficult to get his stories in the paper. One by one, the various sections of the paper wouldn't take his stuff anymore, and on the national desk, where he was assigned, he found his editors were often willing to sit on his stories, or kill them altogether.

Because he is a passionate man who firmly believes in what he is doing, Mintz would become furious over his treatment, storming into the offices of his editors, demanding an explanation, and never, ever, coming out satisfied with their explanations. The thrust of his basic complaint, that the *Post* was only interested in scandal when it was political in nature, was accurate enough, but no one was going to change that on Mintz's say-so. Finally, the *Post* gave Mintz the Supreme Court beat, one imagines as much to get him out of their hair as anything else. It is a good and demanding job, but one in which he simply does not have time to do much of his old reporting. In this way, the *Post* took away from Mintz the chance to do the stories that made him special, while keeping him on the paper.

Not everyone is treated that "well," which brings us, finally, to the story of Philip Stern's short-lived stint at the *The Washington Post*. In 1974, when Stern wanted to join the *Post*, he had already gained a reputation as a good investigative writer. Although he had written four books, he wanted to go beyond what he had done—he wanted to study, in a series of articles, some

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institution that was important in America but had been unexamined in the press.

He proposed the idea to his friend Ben Bradlee, who seemed excited, and later proposed it again to Simons and Harwood, neither of whom was nearly as excited though both were certainly willing to give it a try. So in May 1974 Stern came to the *Post* under the agreement that he would stay and write for six months and if it worked out he would stay on a lot longer.

On his first day on the job, there was a short stand-up meeting at his desk about his topic—Bradlee had wanted him to look into the stock exchange, but Stern thought that had already been done in a number of publications and proposed instead doing his series on life insurance. "Fine," Bradlee said, and strolled back into his office.

There is hardly a subject in the country more ripe for examination than the life insurance industry. Not only are there no newspapers or magazines that have taken a tough look at the industry, but the government hasn't done much either—life insurance comes under no federal regulations whatsoever. Yet it is enormously important to everyone—a powerful industry that wields great economic clout and makes enormous sums of money.

Rather than treating it as just another dull, gray industry, Stern was proposing something radically different: he wanted to examine the forces that made it work; to find out how and why it was so powerful and financially successful; and to get at the process by which it affects our lives. This was precisely the kind of thoughtful, subjective reporting the *Post* lacked. Since it was also the kind of reporting the *Post* had rarely done before (nor, for that matter, had Stern), he would need consultation with his editors, he would need prodding, he would need ideas thrown back and forth.

Instead, he didn't talk to an editor for the next six months. Since he was not producing the way beat reporters do, Harry Rosenfeld (who replaced Harwood as national editor when Harwood went to Trenton) ignored him most of the time. When he did produce a story it often sat on Rosenfeld's desk for eight or ten days, unread and unused. What Rosenfeld and Bradlee could have done was provide Stern with leadership and ideas, they could have created an atmosphere of ferment that would have turned his series into a smashing success. The potential was certainly there. Instead, they chose to leave him alone, to see what he could come up with by himself. And in the end the stories on life insurance that were printed were flat and difficult to read. They had the flaws of so much of the other *Post* attempts at enterprising reporting—too many facts and not enough analysis.

When his six months were coming to an end, Rosenfeld called Stern in and told him his time at the *Post* was up. There weren't any "slots" for him, Rosenfeld said. There was no discussion of the project, what had gone wrong, or why they didn't like it. There was no discussion of how many other stories he had left to do. In four days time, he was expected to leave quietly.

"We're creatures of habit," says Harwood of the paper's editors, and that goes a long way towards explaining why the *Post* is run the way it is. Their good habits are the reasons why the *Post* will give us yesterday's news accurately and ferret out scandals. Their bad habits are those that allow them to bring in someone as talented as Philip Stern, and try something as unique as his experiment in journalism, and then waste both Stern and his idea through benign neglect. Until the *Post*'s editors are willing to do more than hire the best writers they can find, until they start providing the leadership and the thought and the sense of mission that is missing, we will never get the kind of thoughtful reporting the *Post* could give us, nor will it ever be the newspaper it is capable of being. ■

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The Budget Game and How to Win it.

by Leonard Reed

In a desperate attempt to convey to the public the concept of one billion, an earnest political campaigner this year pointed out that "a billion *minutes* ago, Cleopatra was sailing down the Nile. . . . a billion hours ago, dinosaurs roamed the earth." A ruler and hand calculator will tell you that if you scotch-taped one billion dollar bills end to end you could run a green belt twice around the equator, loop it near Quito, Ecuador, and run it twice more across the polar caps. Our current federal budget calls for outlays of $487 billion.

The explosion of expenditures for both military and social programs during the Johnson administration (and the almost inevitable Nixon revenue-sharing as the programs outgrew the federal capacity to administer them) has proved exceedingly difficult to contain. By now most of us have been told how many of these programs in effect subsidized the lobbying efforts of their "clients," thereby ensuring continued pressure for still more money. Less is known, however, about the actual mechanisms through which these pressures, reflected in the demands of the federal agencies, operate—the annual budget process. It is a vast undertaking imperfectly designed to reconcile what our society wants and what it is willing to pay for.

The President's January budget message is only the mid-point of this process. It ends in the halls of Congress, but begins with the President and his Office of Management and Budget going through an exercise in macroeconomics. That is, without considering individual budget items, the President says, more or less, "I want to hold spending to X, I don't want a deficit of more than Y, here is what we can bring in with taxes and revenues—so this is about the way I want the budget to come out." Bearing in mind presidential political priorities, OMB then lets the federal agencies know the size of the pizza and how large a slice each can expect. Each

Leonard Reed is a contributing editor of The Washington Monthly.

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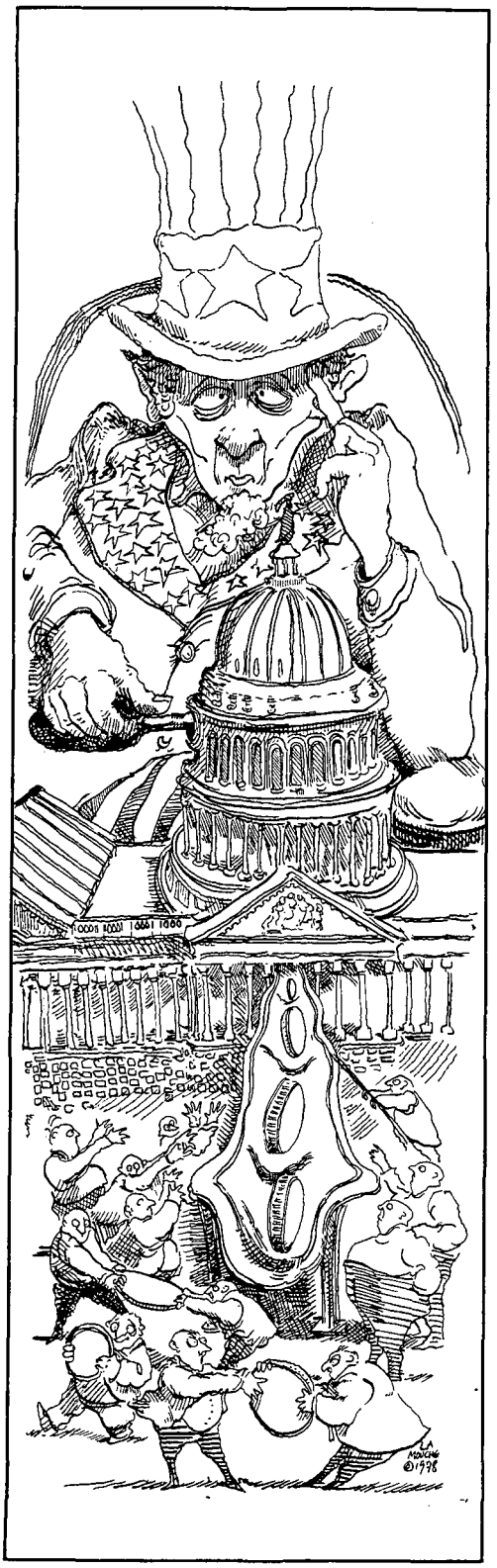
Illustrations by La Mouche



agency, after going through its own internal pie-splitting routine, submits its proposed programs and budget to OMB. There is some haggling. In time, the President is able to give Congress his detailed budget proposal.

Within the framework of this seemingly simple scenario, bitter skirmishes take place, and much hanky panky. The battles are fought by unevenly matched adversaries the public rarely sees or hears about: the President's champion, the OMB, up against the best and the brightest from the agencies.

OMB's top echelon operates from the ornate Executive Office Building, which stands cheek by jowl with the White House on Washington's most prestigious acreage. A relic of pre-airconditioning days, its large offices have soaring ceilings that, nevertheless, pay obeisance to the virtues of thrift by peeling copiously. OMB is a small enterprise (by government standards) and hasn't grown much over the years. The current staff of 556 compares with 512 employees 27 years ago when it was the Bureau of the Budget. Three hundred sixty-three of these OMB employees are on the "B" side of the organization (a fraction of these work on the OMB's own budget, which, for 1979, comes to $31 million).

It is an elite staff with an exceptionally high proportion of professionals. A glance at the roster of the division that deals with the Defense Department's budget tells you that of 49 employees, only 12 are clerical. The average grade of the OMB employee, GS-12, matches up well against the government-wide grade average of GS-8. Economists and political scientists, rather than business administration graduates, predominate in the lower professional ranks. But Harvard and Stanford MBAs are well-represented at the higher levels of OMB.

The OMB's foot soldier in the effort to contain the monetary aggression of the agencies is the budget examiner. To a department the size of Agriculture, which is about average, OMB assigns seven examiners, each of whom is

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responsible for evaluating the proposals of a specific part of the department. The examiner assigned to the Forest Service, say, spends much of his time with the Service, reads its reports, talks to its program people, visits its installations, and is directly involved in any legislation affecting the Service. After reviewing the Forest Service's annual budget submission, he will make his recommendations to his superior at OMB. These recommendations will be amended as a result of the gamesmanship at higher levels, but the examiner is by no means a non-entity. His superiors depend on his knowledge of detail; the average budget examiner has been with OMB for seven years and usually has taken his apprenticeship in the agencies themselves.

But seven budget examiners overseeing the $20 billion in programs operated by a massive organization like the Department of Agriculture can do little more than spot sample what goes on. And there are other difficulties. A budget examiner who works with an agency's officials over a period of time may gradually come to identify with that agency and its ambitions, and any adversary relationship then ceases to exist. Sometimes the higher echelons of OMB spot the symptoms of an examiner being co-opted by the agency. More often the co-opting goes undetected until the examiner actually moves to the agency he's been examining. Generally, such transfers involve promotions. The problem is not too different from the old revolving door relationship between government regulators and the industries they regulate. As a result, OMB must recruit between 60 and 80 professionals every year, an inordinately high number for so small an organization; about half of these recruits replace staffers who have transferred to other agencies.

And, In This Corner...

The chief spear-carrier for a federal agency is its budget officer. Senior budget officials in the agencies are

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among the shrewdest and most competent of federal executives. They belong to one of the few categories of civil servants who, if they leave government, rather easily find higher salaries in the outside world. But although some leave and some switch agencies, more stay with the same department for their adult lives.

The top budget officer of a cabinet-level agency is invaluable to his department Secretary. Virtually no cabinet officer comes to government with previous experience in overseeing programs costing literally billions of dollars, and the budget officer plays a key role in giving him some perspective on the value and effectiveness of those programs. The Secretary's other top officers head competing bureaucracies within the department; the budget officer helps him sort things out. The line between being the Secretary's good right hand and actually making policy decisions for him is sometimes fuzzy.

The budget officers are frequently in better touch with the political realities than are the OMB officials with whom they deal. After examining a housing program, for example, OMB may argue that the results don't justify its continuation. "Your facts are right," the agency budget man concedes, "but Congressman Jones has made some strong commitments on that program. The President is going to need his vote on the nuclear carrier veto, and it wouldn't be smart to embarrass Jones to save a few million bucks." Is the continuation of the program really a necessary cost of achieving a larger economy (in this case, sustaining a defense spending veto)? OMB frequently has to guess at the answer, for in spite of recent moves to bring more politically attuned people into OMB, it remains primarily a professional/technical staff. Agency budget officials, on the other hand, are in touch with the political currents through their intimate contacts with congressional staffs, pressure groups, and the political leadership of their agency.

In sheer numbers, as well, OMB is heavily outgunned by the agencies. One agency officer tells of running into Roy Ash, then OMB's director, at a budget officers' banquet in the State Department's cavernous Benjamin Franklin Room. Ash, fresh from Litton Industries, confided that he'd had no idea there were so many budget people in government. "I had to tell him," the agency man said, "that this was just the tip of the iceberg—those willing to pay $15 for a dinner." Arrayed against the six or seven budget examiners OMB assigns to it, the average cabinet-level federal department has 450 to 500 budget people on the payroll. And they are not there to help OMB find out where the bodies are hidden.

In the maneuvering between agency and OMB, the agency holds its cards close to its chest, and OMB tries to peek. An agency budget officer may appear hard-nosed when dealing with contending factions within his agency, but during negotiations with OMB he feels under no obligation to reveal where cuts should be made, where there is waste and inefficiency. Every large agency, for example, has a substantial number of job "slots" that have gone unfilled for so long that they could obviously be eliminated with no peril to the republic. Instead, what is done is to pressure supervisors to fill the vacancies, even to accept marginally qualified applicants. If the evidence might discourage OMB from providing more money for more positions, get rid of the evidence. The best-known manifestation of this attitude is the spending spree on which federal agencies embark toward year's end in a desperate attempt to unload surplus funds. (An interesting sidelight that emerged from the investigation of the General Services Administration was the plight of Army purchasing agents at Fort Meade, Maryland, who had to get rid of $50,000 for office supplies by the end of the year but couldn't possibly use that much in pencils and paperclips. GSA rescued them by charging $50,000 for $20,000 worth of supplies.) The budget officer

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is no less patriotic than anyone else, but the pressures of daily office life inevitably direct his first loyalty not to that abstraction called the government but to his very tangible agency.

The outright fraud and waste which is kept under the carpet, though, is petty stuff. For every dollar dissipated by the well-publicized tendency of the GSA to pay for services not rendered, thousands are spent on questionable projects and the bureaucracies created to administer them. Programs are the big game; and in the tussle for program money all is fair, including whatever tactics are likely to be successful in outwitting or outflanking OMB.

A budget officer describes the preliminary jockeying for more program money:

"Because you deal with essentially the same programs for many years, you know what OMB thinks of various programs. You start with that knowledge and you build your strategy around it. You don't use one strategy for your whole budget—you adopt a lot of strategies for different pieces of your budget.

"One strategy is to play it straight. Knowing what your Secretary wants, you send in your budget proposals accordingly. You make your pitch. If a program he wants is short-changed, you appeal it through channels—up the line, with the Secretary finally taking it to the Director of OMB and, if he is still refused, to the President. That's playing it straight up. You find that done most often in a new administration, the new Secretary playing by the rules. Well, that works sometimes, but in time he learns other ways to get around.

"A lot of it is poker playing. Most of the time, you know OMB is not really representing the President's view but its own staff's view. Normally, after you submit your budget to OMB, the Director sends it back to the Secretary along with the recommendations he intends to make to the President—and the Secretary gets a chance to appeal the recommendations beforehand. Sometimes, however, the President has already seen the budget, and then OMB presents the revisions to the Secretary as representing presidential decisions. Well, you know damn well they don't take every item in your budget to the President, just some basic issues. So you have to guess at which ones are really presidential decisions, and which you can bull through.

"There are dozens of ways to get some of the things you want. Sometimes you use a strategy of intimidation. Since you are dealing with OMB mostly at the staff level, you may whip out the big guns—get the Secretary to call one of the lower-or-intermediate level OMB bureaucrats and put the heat on. You see, these fellows are trying to figure out *my* poker cards. When I say the Secretary is really hot for a program, they have to figure out whether the Secretary *is* personally interested and really knows and understands the issue, or whether I'm just engaging in gamesmanship. I once appealed eight items in our budget and was turned down on all of them. I got the Secretary to get on the phone to a low-level OMB man and we had our way on every one."

Game Time

When the "straight" strategies, up to and including intimidation, are found wanting, then it is game time. Here's how some of the games are played:

The King's Pawn Opening. This gambit is offered by virtually every federal agency in its initial go-around with OMB: overstate what a program will cost for the coming year in anticipation of OMB cuts. Although everybody involved knows that this is going on, the bidding is sometimes wild because so large an element of guesswork is involved. If an agency calculates that a program will require a minimum of $10 million, the agency may very well ask for $40 million on the assumption that it will be negotiated out at a comfortable $20 million. Despite the high degree of professionalism (W. Bowman Cutter,

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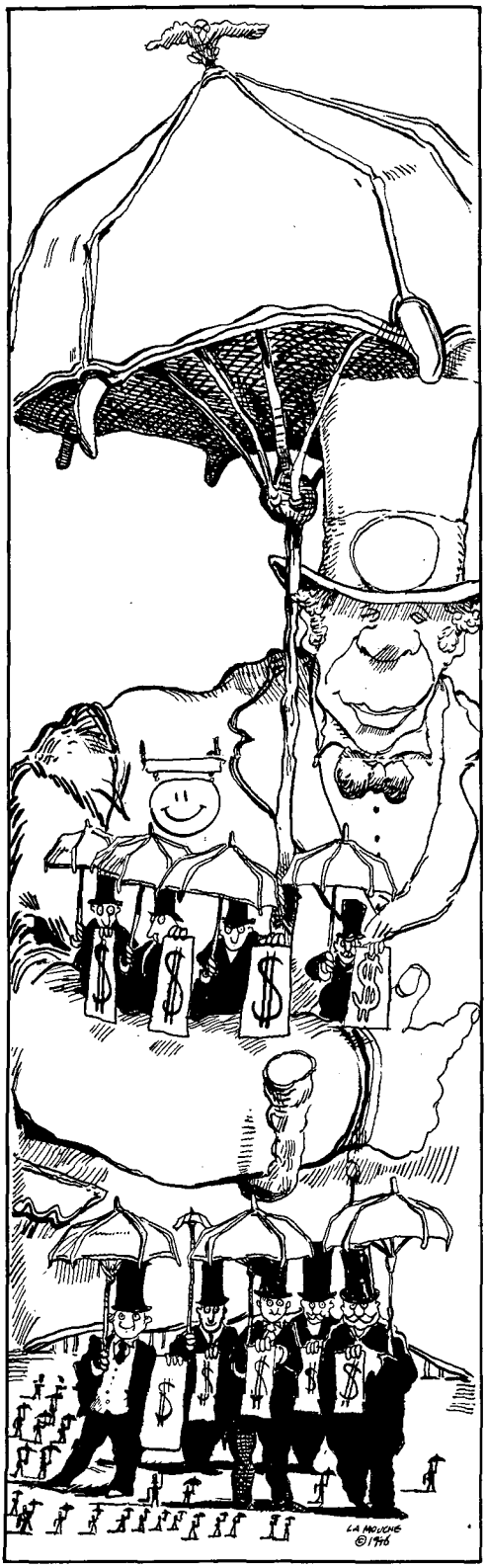

former executive associate director for Budget, called his staff superior to any he has worked with in private industry) and despite OMB's having its own sources within the agencies, it's no easy job to determine the real cost of a proposed program; even the agency budget officer can't do it with any precision. And a single OMB budget examiner who has six or seven weeks to review about $3-billion worth of such programs is at a decided disadvantage in his ability to dispute the potential cost of each item. The King's Pawn strategy is particularly popular with international programs, such as foreign aid, which are open-ended in the sense that nobody can pinpoint the benefits or catastrophes that will result from spending half a billion dollars more or less.

The Shortfall Game. This is almost the mirror image of the previous strategy, the technique here being to *underestimate* the cost of a program. You can play the shortfall game because 74.9 per cent of the federal budget is officially designated as "relatively uncontrollable" and unofficially known as being "on automatic pilot." In that category are such programs as social security, federal employment retirement benefits, unemployment assistance, veterans benefits, medicare, farm price supports, and a host of others which are called "entitlement programs." These are programs for which funds are mandated by law so long as the recipients of the money meet specified qualifications. How many people will qualify for payments under each of these programs in a given year is subject to changing circumstances, and estimating the number is a fertile field for gamesmanship. Consider the $6-billion-a-year food stamp program of the Department of Agriculture. To arrive at his request figure, the Department's budget officer needs only to multiply the cost of the food per person by the number of participants. He makes his best estimate on the latter, but there is a variable: if the economy improves, fewer people will

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be entitled to food stamps and, conversely, if it worsens, more people will become eligible. Now, after working up Agriculture's entire budget in line with the limit OMB has given him, the budget officer finds he needs to scrape up a hundred million bucks for some program that has been neglected. So he looks again at the food stamp program and this time assumes a slightly rosier outlook for the economy, which will mean a two per cent drop in the number of stamp recipients. He "low-balls" his food stamp estimate, shifts the hundred million out of it and into the other program—and is still within his budget limit. Of course, as the year wears on and the number of people needing food stamps exceeds the estimate, Congress has no choice but to make up the shortfall with a supplemental appropriation.

The Washington Monument Game. This popular budgetary pastime is by now familiar—certainly to readers of this magazine. A game with many variations, it is based on one idea: to resist cuts by threatening to eliminate essential services or programs that it would not be politically feasible to drop. If the National Park Service is faced with a budget cut—to cite the 1971 genesis of the name of the game—it threatens to close down the Washington Monument to tourists, knowing that Congress, fearful of a peevish public, will rescind the OMB cut. Or, under the restrictions imposed by OMB, the agency regretfully finds it will have to abolish Program X; as it happens, Program X is the pet project of Congressman Clout, a power whom nobody in his right mind wants to antagonize.

The Carter administration's Zero Base Budgeting has made this game more sophisticated. Under ZBB procedures, OMB sets a "ceiling" for each agency—the maximum amount that presumably can be allocated to it. The agency is asked to rank in its own order of priority the programs for which it is requesting funds and the amounts needed. To simplify, let's say an agency lists 15 programs (a major department may in fact have 500), of which only the first ten come in under the ceiling set. The agency's ploy is to include in that first ten a couple of programs it considers vulnerable and to move a couple of "Washington Monuments" back into spots eleven and twelve. The pressure then is on OMB to raise the ceiling to include eleven and twelve.

Budget officers make no bones about playing the monument game—that is, "finding" money for programs they want by dropping programs they know OMB or Congress will restore. But they insist that it is frequently a tactic with some civic merit. One of them put it this way:

"There is almost an inverse relationship between the value of a program and the amount of political pressure it generates. The worse a program is the more likely it has survived because it is somebody's image builder. When I go through my programs to see which are the least valuable to the public, these dogs keep popping up. They're no good, but they have this powerful political support. So you send up your list of programs and you say, 'OK, I've cut out the laboratory in the chairman of the appropriations committee's district and the lab in the district of some other committee chairman, etc.—those are my dozen worst.' Sure, OMB will come back and say, 'C'mon now, you know you're playing games,' and they'll insist we put them back in. But we have a bargaining chip and OMB will probably up our allocation."

The Umbrella Game. This is a universal favorite with federal agencies. Every President comes in with announcements of certain initiatives or directions, and others are unveiled along the way. Some are specific programs, some broad perspectives, but all offer alert bureaucrats the opportunity to initiate new programs, shore up vulnerable ones, and fatten still others by presenting them as tailor-made to meet the President's expressed wishes. If

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they can be slipped under the umbrella of presidential intent, the agency has OMB on the defensive. Carter, for example, has been strong on his American heritage program, which calls for the preservation of historic sites through their purchase by the government. Once this policy became known, any land the Department of the Interior aspired to own was destined to be classified as an "historic site." After Carter spoke of his concern for the cities, HUD was quick to contest a cut in virtually any of its requests as adversely affecting an important presidential initiative. Even the vague conciliatory phrases speechwriters concoct for the President to toss out to special interest groups become holy writ with which enterprising agency officials justify vaguely relevant programs.

As in the monument game, budget officers are frank about this kind of fooling around, but accept no blame for it. "Sure," one of the departments' top budget men said with a grin, "If the President comes out with an environmental message, you begin to reclassify all the programs you can as 'environmental' and beef them up. Or, as the case may be, 'water control.' Or 'energy.' Or whatever the current presidential initiative is. Of course it's transparent—but the President *wants* us to play that game. He wants to show the environmentalists (or whomever) that he's on their side. He's looking for things you can classify as environmental. And the people on the Hill also know it's the same old program in new clothes, but they're looking for something to show the public they're dealing with this urgent problem, so they go along. Everybody plays the umbrella game."

The Gimmick Game. Most federal agencies have the capacity to generate income, at least temporarily. The General Services Administration can time the sales of stockpiles of supplies to suit its purposes. The Forest Service can sell or withhold timber. To keep the housing market fluid, HUD purchases mortgages that it can, at any time, sell back to the banks in huge quantities. This flexibility is the *deus ex machina* of the gimmick game. To wit, here is how the Department of Agriculture might (and does) play the gimmick game with its Farmers Home Administration: That agency makes housing loans to people in rural areas, and agricultural loans to farmers, to the tune of six or seven billion dollars a year. Making the loan involves outlay; selling the loan note brings in money. The technique is to go into the OMB negotiations low on funds, having made substantial loans. After OMB has settled on the amounts it will recommend for the various programs to be funded, the budget officer and the Secretary have a session at which they discuss some additional programs—say, two or three hundred million dollars worth—that the Secretary really wants, programs that perhaps are threatened with extinction or malnutrition because they didn't quite fit under the ceiling negotiated with OMB.

"Well," says the budget officer, "here's something I can do to pick up the extra dough—we can sell off some of those loans and use the money to fund those programs." If more money is later needed to make loans, Congress will have to provide it. The worst aspect of the gimmick game is that it can help agencies maintain in perpetuity antiquated or bad programs by keeping them out of the reach of OMB and, by extension, of the White House.

The End-Run Game. The end run describes a variety of techniques agencies use to bypass OMB budget examiners, the OMB itself ("I've never had a budget," one 20-year veteran said, "when I didn't go around OMB"), or, sometimes, the President.

When a budget man knows from experience and from tentative feelers that the OMB staff, right up to the associate director, is going to turn down a program, he will get his Secretary to start working on the OMB Director. The object is to have the decision made before the routine staff

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analysis takes place—to get the Director committed before his staff recommendations reach him. And, if the stakes are high enough, the strategy will be to get the President committed before OMB even gets into the act. The approach may be made directly to the President or indirectly through the Domestic Policy Staff, which, if sold, will take the program to the President with its endorsement.

In a common but risky form of the end run, the agency, during budget negotiations with OMB, takes its case to those of its clients who benefit from particular programs. Details of the supposedly confidential agency-OMB differences are leaked to the press, and the special interest groups swing into action. This tactic, however, can backfire. Presidents get upset when pressured by special interest groups on budget conversations those groups aren't supposed to know about and, as a budget officer put it, "You don't want to antagonize the guy who's going to make the final decision."

The oldest end-run play carries the ball directly to Congress. After the budget process has run its course within the executive branch, the pertinent congressional committees hold hearings on each agency's budget as submitted by the President. The Secretary, his budget officer at his elbow, is the chief witness; the budget officer himself is called later to testify in more detail. At first glance, these agency witnesses appear to be at a distinct disadvantage—not only is the story of the negotiations with OMB supposed to be kept secret, but OMB screens the proposed congressional testimony of agency officials to ensure that the agency is supporting the President's submission.

However, various forms of collusion, based on long-standing relationships between congressional committee staffs and agency people, can nullify OMB's efforts to exert executive discipline. Frequently, the original agency budget draft is leaked to the committee. Or else the committee is made aware of the differences in the drafts and it calls OMB to demand the original. After an agency official gives his cleared testimony, he may be asked for his personal view; you can't reprimand a man for his personal view, and, if in that view an additional carrier is necessary for the national defense, then so much for the screened testimony he has just given. The committee hearings are often charades in which questions designed to demonstrate the need for additional funds are written out in advance by the agency officials and obligingly mouthed by the congressmen. In one form or another, the most common question is, "What did you ask OMB for?" A good agency man will always include in his answer those things the committee chairman wants, whereupon it is discovered that OMB knocked some of them out. Chances are good that along with those projects the committee will restore some of the agency's pets. Winks and nods among committee, agency, and special interest groups are the currency of the end-run game.

Few of these games are played solely by the agencies. Congress, for example, is a past master at the shortfall game. In 1978, as a result of public outcries against welfare fraud, Congress righteously instructed HEW to clean up the situation and, on the stated assumption that about $1 billion could thereby be saved, cut the HEW appropriations request by something like that sum. It was largely a grandstand play. Since it is most unlikely that HEW is going to save the taxpayers a billion dollars in welfare and related abuses, the legislators knew that the President would probably have to ask for a supplemental appropriation for HEW—which Congress quietly would pass.

The OMB's indignation at agency gamesmanship also sounds a little like the shock of a Tammany politician upon learning that Patrolman Houlihan is mooching apples from the fruit stand on his beat. OMB's favorite is the gimmick game. For a lot of reasons, among them problems

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associated with letting complicated contracts and the slow development of new programs, the government tends to "underspend" what is has budgeted. And for other reasons that make sense only in Government Wonderland, a president whose budget has called for a $30-billion deficit is embarrassed when the actual deficit threatens to be only $25 billion. The concern has less to do with the effect on the national economy than with preserving the "credibility" of the President's original requests. So, OMB will advise agency budget officers that "it looks like we're going to have a $5- or $6-billion underrun—can you increase your outlays?" English translation: unload money—by spending if you can, by bookkeeping gimmicks if necessary.

Irresistible Logic

In spite of the special relationship it enjoys as the President's instrument, OMB is the lightweight and the agencies are the heavyweights in the battle of the budget. Even were they not better situated and more numerous than their adversaries, agency budget officers would know that in a real locked-horns situation between OMB and agency, the President is more likely to come down on the side of the department Secretary. In most instances that Secretary was appointed because of the constituency he could bring with him; once in office, he acquires additional constituencies and is a political power with whom the President has to deal gingerly. OMB, on the other hand, has the nebulous standing of a hired advisor.

The games budget officers play are, in fact, the symptoms rather than the cause of the expanding budget. They are wiles developed in response to pressures. Within his own agency, the budget officer deals with a host of individual bureaucracies, each with a built-in expansion dynamic, each with its own constituents and congressional allies, each led by people convinced that the fate of the nation hinges on their getting a larger appropriation. The growing acceptance of this expansion creates a dynamic of its own: "Bureau chiefs come to me," a budget officer relates, "and they say, 'If you take out inflation, I'm just asking for a two per cent increase.' Well, you know, if every program has a real annual growth of at least two per cent, it won't be long before *all* the money has moved from the private to the public sector. But these are the people I live and work with, and it's their case I'm making when I go up against OMB."

The monumental size of the budget itself breeds increased expenditures. In the framework of a $500-billion budget, the agency officer's plea to fatten this program or that ("Look, we're only talking about $20 million.") takes on an apparently irresistible logic. The same logic in the congressional phase of the process can wear down the resistance of the most determined President.

The public, which bears the resultant cost, is in a poor position to defend itself in these day-to-day fiscal skirmishes. The budget process is inordinately complex, unique in its language, rife with concepts unknown to standard accounting books, and largely hidden from public view. Few people in the country can follow what's going on, and the reporters who once a year file a budget story the size of a column on this page can't help them out much. Only the players understand the game, and, although some play better than others, none of the players loses. It is not all that different from the way big corporations and big unions amicably resolve a potentially bruising situation by passing on to the consumer the costs of their settlement.

As the agencies and the OMB go at it, maybe the best image to keep in mind is the professional wrestling exhibitions you see on television. There is a lot of grunting and groaning, some contorted faces and dirty tricks. The outcome, however, is never in doubt, and the public pays to sit and watch. ■

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Who's Who in the Carter Administration

The real tragedy of this administration has to be the lack of interest in the substance of government on the part of Carter's chief assistants, **Jody Powell** and **Hamilton Jordan**, and the ignorance of the federal government that they and their boss shared when they came to power. . . . **Bernard Aronson**, who is the new chief speechwriter for the White House, is a former member of VISTA who worked in the coal fields of Kentucky. Later as a reporter for the Raleigh Report in Berkley, West Virginia, he became interested in the Miners for Democracy reform movement in the United Mine Workers. When the reformers won, he was hired as press secretary for the UMW and later became the union's director of publications. Arnold Miller fired him along with other top staff members in 1976. Insiders say he was on the right side in most of the union's internal fights. He may surprise **Gerald Rafshoon** and **Greg Schneiders**, who are telling reporters they expect to exercise tight control over him. . . . Martin Schram recently wrote in *The Washington Post*: "Mondale has carved out an influential role in the administration without threatening the Carter staff." The words left out were, "and without threatening Carter.". . . The case of **David Jewell**, who was **Brock Adams'** press secretary, presents one of the classic Washington mysteries. We *hear* he fell from favor after Adams was ranked at the bottom of the President's cabinet by *U.S. News*. What we *know* is that he left his post to become Adams' special assistant. Now "special assistant" is one of those job descriptions that can mean two totally opposite things. Sometimes the special assistant is the real power behind his boss. Sometimes he is a guy who the boss wanted removed from some other significant post, and who will be given an office but nothing to do. Which is Jewell? You can't tell from his title, and that's the beauty of it. . . . There could be a major exodus from sub-cabinet posts this year as the White House simultaneously cuts budgets and demands greater subservience from the victims of the cuts. . . .

In

WHITE HOUSE

Deputy Secretary, Office of Management and Budget—**John P. White** has been reappointed by President Carter during the congressional recess, after having failed to be approved by Congress before adjournment.

Deputy to the Counselor on Inflation—**John N. Gentry** will be the labor-management troubleshooter for inflation chief Alfred Kahn. Gentry spent 13 years in the Labor Department; currently he is a partner with W. Willard Wirtz, secretary of Labor under Kennedy and Johnson, in a Washington consulting firm.

Special Assistant to the Chairman, Council on Wage and Price Stability—**W. Bowman Cutter** has been executive associate director for budget in the Office of Management and Budget.

Executive Speechwriter—This is the new title for the chief speechwriter, and it goes to **Bernard Aronson**, who was a speechwriter for Vice President Mondale.

Staff Member, National Security Council—**Jim Rentschler**, a Foreign Service officer in the International Communications Agency, who has served in Bucharest, Morocco, Paris, and Upper Volta, will handle Western European issues.

COMMERCE

Special Assistant to the Secretary for Intergovernmental Relations—**Richard W. Roper** has been director of the Office of Newark Studies, which provides the city of Newark, New Jersey, with policy research and analysis.

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Director, Office of Business Programs in the Industry and Trade Administration—**John B. Roose** was associate assistant administrator of the old Federal Energy Administration.

ENERGY

Chairman, Energy Research Advisory Board—**Solomon Bucksbaum** has been vice president for network planning and customer service at Bell Laboratories.

Vice Chairman, Energy Research Advisory Board—**James Fletcher** is a member of the engineering department at the University of Pittsburgh.

HEW

Executive Assistant to the Secretary—**Richard I. Beattie** has been deputy general counsel.

Deputy Assistant Secretary for Equal Employment Opportunity—**Wallace Kountze**, who has been personnel administrator for the state of Massachusetts, will be responsible for the department's hiring programs for minorities, women, and the handicapped.

HUD

Assistant Secretary for Legislative Affairs—**William Welsh** has been executive director for governmental affairs for the American Federation of State, County and Municipal Employees.

Answers to last month's puzzle:

1 V	I	2 C	E	3 P	R	4 E	S	5 I	D	6 E	N	7 T	S	■
E	■	H	■	A	■	Y	■	D	■	X	■	A	■	8 A
9 S	T	A	R	T	L	E	■	10 Y	O	U	A	L	L	S
T	■	R	■	R	■	F	■	L	■	L	■	L	■	T
11 S	P	I	R	I	T	U	A	L	■	12 T	H	E	R	E
■	■	T	■	O	■	L	■	I	■	■	■	S	■	R
13 M	A	Y	N	T	■	14 S	E	C	T	15 O	R	T	W	O
A	■	■	■	I	■	■	■	■	■	N	■	■	■	I
16 I	N	17 F	E	C	T	18 I	O	19 N	■	20 D	I	21 C	E	D
N	■	L	■	■	■	N	■	O	■	E	■	H	■	■
22 T	W	A	N	23 G	■	24 S	O	M	E	P	L	A	C	25 E
A	■	K	■	O	■	U	■	I	■	O	■	R	■	D
26 I	N	I	T	I	A	L	■	27 N	E	S	T	I	N	G
N	■	E	■	N	■	I	■	A	■	I	■	O	■	E
■	28 O	R	I	G	I	N	A	L	S	T	A	T	E	S

LABOR

Acting Director, Office of Engineering Feasibility, Occupational Safety and Health Administration—**Donald W. Lyons** has been a professor at Clemson University specializing in textile and mechanical engineering.

STATE

Ambassador-at-Large—**W. Beverly Carter**, currently ambassador to Liberia, will head the new Office for Liaison with State and Local Governments. Carter (no relation to the President) is a career Foreign Service officer who also has served in Tanzania.

TREASURY

Director, Bank Organization and Structure Division—**James V. Elliot** has been an attorney in the litigation division of the Comptroller of the Currency's office.

Deputy Tax Legislative Counsel—**Harry L. Gutman** has been an attorney advisor to the tax legislative counsel since July 1977.

AGENCIES & COMMISSIONS

Arms Control and Disarmament Agency

Senior Staff Assistant to the Director—**Col. Norman G. Clyne**, retired from the Army, has joined Lt. Gen. George Seignious, another retired military officer, at the ACDA.

Commodity Futures Trading Commission

Acting Chairman—**Gary L. Stevens**, currently vice chairman, is expected to hold this position until a new chairman can be found to replace William T. Bagley.

Federal Reserve Board

Staff Director for Monetary and Financial Policy—**Stephen H. Axilrod** will be responsible for integrating domestic monetary policy with international policy issues in this newly created post.

General Services Administration

Special Counsel to the Internal Corruption Probe—**Irwin M. Borowski** has been an associate director of the Securities and Exchange Commission's enforcement division. Borowski will take charge of the bribery scandal investigation initiated by

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Vincent R. Alto. Borowski will be on assignment from the SEC.

Interstate Commerce Commission

Secretary—**Herbert G. Homme** has been acting secretary of the commission.

Special Counsel to the Commission—**Edward J. Schack**, who has been associate director of the office of proceedings, will represent the public in all commission matters in this newly created post.

Nuclear Regulatory Commission

Director of the Office of Inspector and Auditor—**James J. Cummings**, who has been director of the Office of Inspections and Security at NASA, will serve primarily as an inspector general at the commission.

Out

WHITE HOUSE

Member, Council of Economic Advisors—**William Nordhaus**, a charter member of the Carter administration, is leaving to resume teaching at Yale.

Assistant Director for Wage and Price Monitoring, Council on Wage and Price Stability—**Jack Meyer** is leaving to join the staff of the American Enterprise Institute for Public Policy Research.

Special Assistant for Special Projects—**Martha "Bunny" Mitchell**, the highest-ranking black woman in the White House, is leaving to become the executive assistant to the deputy administrator of the Small Business Administration. Her responsibility for liaison with black groups has been taken over by Louis E. Martin, who joined the White House this fall.

Speechwriter—**Jerry Doolittle**, who wrote many of Carter's jokes, plans to resign and probably will go to work as public affairs spokesman for a federal agency.

Speechwriter—**Caryl Connor**, a member of Carter's speechwriting staff since last spring, has resigned to do freelance work and public television commentaries.

HUD

Assistant Secretary for Legislative Affairs—**Harry K. Schwartz** has resigned at the request of HUD Secretary Patricia Harris. Schwartz's performance as the department's congressional lobbyist had received criticism from Capitol Hill.

JUSTICE

Deputy Assistant Attorney General for the Tax Division—**Cono R. Namorato**, a member of the task force set up to review the finances of former Office of Management and Budget Director Bert Lance, has resigned to join the Washington law firm of Caplin & Drysdale. He will continue to act as a consultant to the Lance investigation.

TRANSPORTATION

Director of Consumer and Public Affairs—**David Jewell** will be special assistant to the Secretary.

AGENCIES & COMMISSIONS

ACTION

Director, Peace Corps—**Dr. Carolyn R. Payton**, the first woman and first black to hold this post, resigned over policy differences with the director of ACTION, Sam Brown. The conflict arose over the size of the fiscal 1979 budget, which Dr. Payton alleged was too small, and over what Payton described as plans for the agency to engage in "political activism and advocacy."

Federal Reserve Board

Vice Chairman—**Stephen S. Gardner**, former deputy secretary of the Treasury and former head of the Girard Bank in Philadelphia, died on November 19. Carter will now make his fourth appointment to the Board.

General Services Administration

Special Counsel to the Internal Corruption Probe—**Vincent R. Alto**, a former Justice Department prosecutor, agreed to take this post for six months last May. Describing himself as "burnt out" and hampered by the lack of power to subpoena witnesses and documents, Alto plans to open a law office in Washington. ■

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Getting a Handle on AT&T

by Marjorie Boyd

It is by far the world's largest company, with assets approaching $100 billion. In 1977, it earned $4.5 billion for its 2.9 million stockholders, and this year it anticipates a rise in that figure to over $5 billion. Last year's revenues of $36.5 billion exceeded the gross national product of all but 19 countries in the world. The company's top management body calls itself "The Cabinet." It employs almost one million people in 23 operating companies spread across America.

But sheer size is not all that sets American Telephone and Telegraph apart. In a country that espouses the virtues of the free enterprise system and competition, AT&T is different—partly a regulated utility and partly a private company. The Federal Communications Commission regulates the interstate operations of AT&T's Bell telephone system, while state commissions set local phone rates. This business of running the nation's phone network makes up about 80 per cent of AT&T's operation. But neither of the two subsidiaries that comprise the other 20 per cent—Bell Laboratories and Western Electric (which makes Bell's phone equipment)—is regulated. As a hybrid, AT&T has been able to appear as a member in good standing of the business community while enjoying the protections of a government-sanctioned monopoly.

The history of AT&T has been ineluctably entwined with the history of the United States government, and there is no question that it has been an advantageous relationship for the utility. It wasn't until 1913, years after AT&T, under J.P. Morgan, had systematically devoured most smaller competing phone companies, that the government trust-busters stepped in. In that year, AT&T signed a document called the Kingsbury Commitment, in which it agreed to divest itself of the Western Union telegraph company, purchase no more phone companies, and allow the remaining small companies to connect up with its long-distance lines—something Bell had previously refused to do. President

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Wilson called it an act of "corporate statesmanship."

But by 1913 the foundations of AT&T as we know it were already in place. In the ensuing years Washington would repeatedly view the AT&T colossus with alarm. The Federal Communications Commission complained that it did not have anywhere near the resources needed to oversee the company; a former Internal Revenue Service official charged that the U.S. lost nearly $3 billion in income taxes from AT&T over ten years because the IRS wasn't big enough to audit the Bell System's books. In 1974, 60 years after the Kingsbury Commitment, the trust-busters decided to take another crack.

The suit is based on AT&T's attempts to stop a bit of competition nibbling at the edges of its monopoly, in the small, fast-growing field of business communications. But the relief the government seeks is broad—the divestiture of Western Electric and the division of the Bell system into its component parts (the local operating companies and the interstate "Long Lines" division). Among other charges, the suit accuses AT&T of "predatory" pricing, and surveillance and boycotting of its business phone competitors. Since the trial isn't scheduled to begin until 1980, however, we can expect AT&T to be around in its present form for some time.

Two years after the Justice Department filed this well-publicized antitrust action, another government agency released a report that received relatively little attention, although it offered equal insight into the workings of our biggest utility. In February, 1976, the staff of the Federal Communications Commission issued the results of a four-year study of the nationwide Bell system, the first comprehensive study ever made of the company and its operations. The FCC staff found hundreds of millions of dollars of "wasted investment in overbuilt facilities" and recommended that the company refund at least $1.6 billion in overcharges for interstate long distance calls from 1971 and 1975. The report also said that AT&T "manifests a cavalier indifference to internal audit control. . . AT&T cannot answer questions relating to how millions of dollars of the ratepayers' [consumers'] money are being spent."

When Monopoly is Inevitable. . .

Most of the attention received by the FCC report focused on the charitable contributions and corporate advertising that AT&T charged to its phone users. But the bulk of the document dealt with the contention that AT&T had overinvested in telephone equipment on a massive scale. To understand the importance of this charge, it helps to make clear some of the rudiments of utility regulation.

Telephone companies are thought, by most economists, to be "natural monopolies." It would be wasteful to string competing networks of phone lines. And, because the costs of installing additional phones gets cheaper as the telephone network expands, one competitor would emerge as the sole provider anyway. Since monopoly is inevitable, the theory goes, we might as well set it up from the start, but we also must regulate it to prevent consumers from being charged exorbitant rates.

Within the confines of that regulation, the United States has chosen to keep the day-to-day operations of the phone lines in private hands, in the hope of preserving at least some of the efficiency incentives of private enterprise, even in a non-competitive industry. As a result, we have built our system of regulation around a single requirement—that the phone company seek government approval of the rates it charges phone users.

Basically, the rates are figured like this: A rate-making commission calculates all the investments made by the utility in phone equipment, cables, buildings—anything "used and useful"

Illustration by David Kidd

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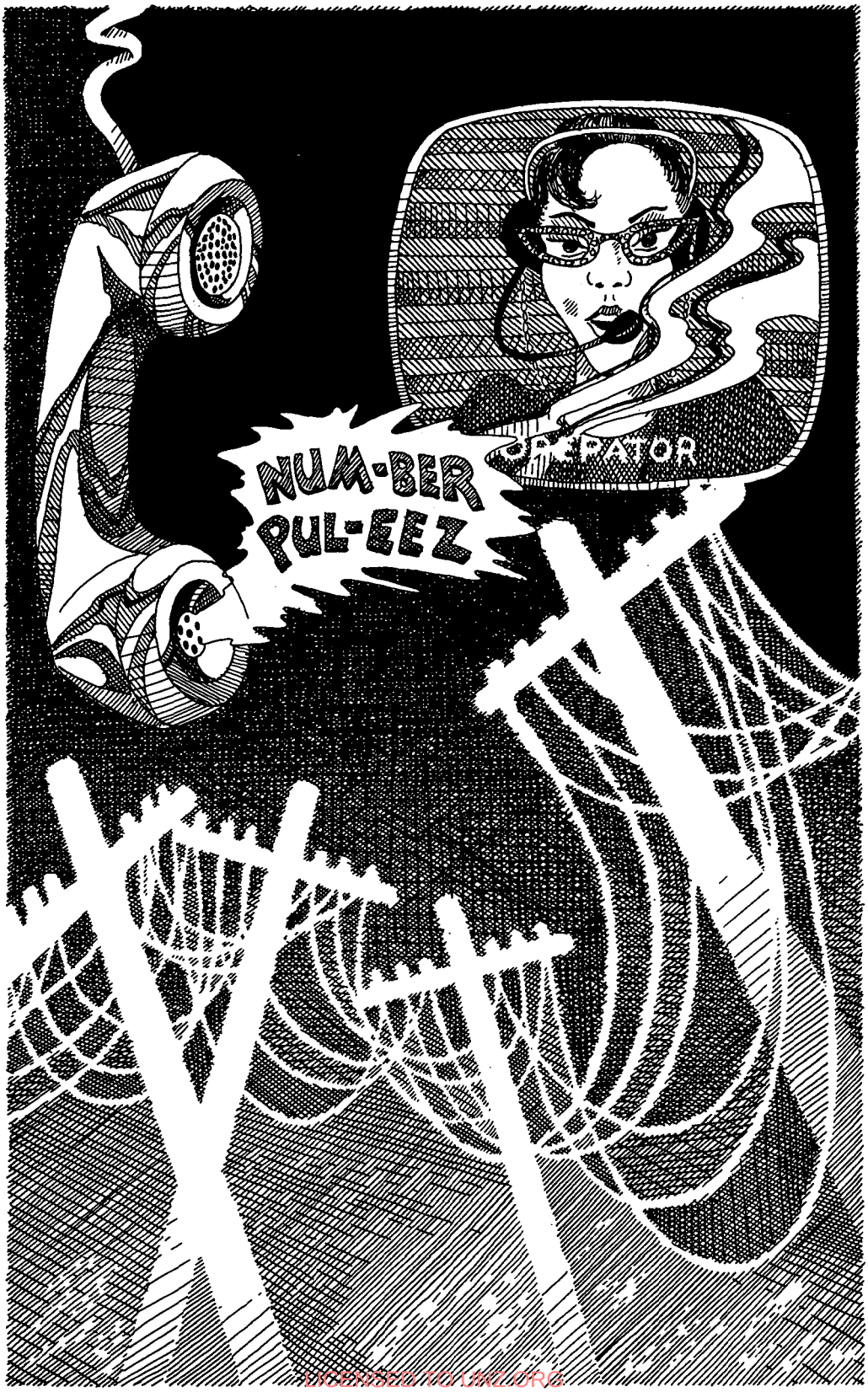

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in providing phone service. These investments become the "rate base." Then the commission sets prices for telephone services that, based on projected operating expenses and sales, will produce enough revenue to run the phones *plus* give the utility a reasonable return on the investments that make up the rate base. In theory, there is still an incentive for efficiency, because if the phone company wastes money it won't achieve the expected level of profits.

In practice, however, there are problems. If some unexpected business disaster should occur, there is always the possibility that the utility can obtain a readjustment of rates to cover the losses. Predictably, the line between the unexpected and the mismanaged is sometimes fudged. Since few communities want to see their utilities get in financial trouble—thereby hurting the utilities' ability to raise capital for future improvements—it is rare that a regulatory commission lets a utility be severely punished for poor management.

At the top end, the incentives again break down. If a utility succeeds in dramatically cutting costs, and achieves an unexpectedly high return on its capital, it will only increase the pressure to reduce its rates the next time around.

So the utility is faced with a dilemma: it is almost guaranteed an adequate return on its investments, but it is unable to increase that return by wringing more profit out of less capital. There is, however, a way out. The utility may often boost its earnings simply by expanding—adding investments to inflate the rate base on which it is entitled to earn its comfortable, if unspectacular, return. If, for example, the phone rates are set to give a utility an eight per cent return on its investments, the utility can expect to earn eight million dollars for every $100 million of additional capital it can pump into its rate base. Just as high profits are the central goal of ordinary private businesses, expansion-by-investment can become the overriding goal of the regulated utility.

The More Expensive the Better

The result, in AT&T's case, is that the utility undertakes every capital expense that can conceivably be related to the public's need for service. The more expensive the investments, the higher the phone rates that will be set, and the greater will be the utility's total profits.

Of course, there are legitimate needs for investment in the phone business, as more people buy phones, equipment wears out, and improvements are demanded. In a competitive sector of the economy, these needs would be demonstrated by the willingness of consumers to pay the price of improved service—but a company would not be assured of any profit, and if it habitually overinvested (e.g. in factories that made products nobody wanted) it would quickly lose a good deal of money.

For the regulated utility, in contrast, the only barrier to overinvestment is the regulatory commission. In theory, the FCC and the various state bodies examine all the phone company's investments to see if they are justified by public needs. If AT&T tries to sneak some unnecessary investment past the regulators, they are supposed to detect it and exclude it from the rate base. But practice again belies theory. Bell invests over $13 billion each year. Until a few years ago, most state regulatory bodies had only a handful of employees and a budget to match. And, as a nationwide enterprise, AT&T enjoys an advantage over the states similar to the advantage of multinational companies in the international arena: the ability to shuffle revenues around between its various subsidiaries, so that the local regulators are unable to tell what is reality and what is a bookkeeping mirage.

The FCC has a little more muscle, with just under 300 employees in its common carrier division. For them, the biggest problem in controlling

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Bell's investment policies is information—they don't have it. Instead, the regulators must generally attempt to pry the facts from the utility itself, which hardly has an interest in demonstrating that a proposed facility will not be necessary.

As a result, while technically the FCC and the state commissions must approve each new investment, in fact they have little choice but to issue blanket authorizations for hundreds of millions of dollars at a time. The effect of the government on AT&T's investment plans, says one Justice Department attorney, is like what happens in the obscure sport of curling: AT&T sails its stone out onto the ice, and the regulators can do little but try to alter its progress by sweeping around it with a broom.

So if you've ever wondered why the shiniest, newest building in every small town belongs to the telephone company, you now know the reason. You also know one reason why America's phone system ranks, as AT&T correctly claims, as one of the best, if not the best, in the world. Bell has every incentive to anticipate—even overanticipate—the consumer's every phoning need. AT&T's engineers are now perfecting a system in which practically no one dialing long distance, even during periods of heaviest use, will get a busy signal due to crowded lines. Quite impressive—and quite expensive. When phone lines are filled only at peak hours, the cost of idle capacity at other times is immense.

The Lesson of New York

Nevertheless, American phone users have come to expect this luxurious level of service. When, in one of AT&T's rare failures to expand ahead of demand, the New York City phone system became overloaded and experienced a partial blackout in 1968, the company was heaped with public abuse and criticism. A shakeup within the company followed, and even those executives who escaped unscathed learned that the one sure way to damage their company, and their careers, was to get caught short of equipment.

Unfortunately, Bell's incentive to invest isn't limited to expansion that is necessary to fulfill the admittedly high expectations of phone consumers. "The capacity of the telephone network," the FCC concluded, "is substantially in excess of present and future needs." If AT&T has given us the Cadillac of phone systems, there are disturbing signs that we are paying a Rolls Royce price. The cost of a local call in the U.S. is higher than in any major non-communist nation except Australia and West Germany, even though we built our basic phone lines earlier (and therefore cheaper) than most other countries. Moreover, AT&T, it seems, has managed to sell us a Rolls with a few Edsel parts.

Remember, for example, videophones? Back in the 60s, we were told they were going to be the wave of the future. They aren't. On the assumption that the videophone was inevitable, Bell spent a great deal of money over the last 15 years developing and manufacturing them, with phone users picking up the tab. Said the FCC staff report: "Little demand has materialized for Picturephone service and there appears to be little likelihood of demand in the foreseeable future. Consequently, we can find no basis for finding a benefit to present ratepayers to justify their being charged for Picturephone central office equipment held for future use since there appears to be no need or demand for such service."

Today, with Picturephones gathering dust in warehouses, and only 45 actual users of the contraptions, AT&T still hasn't given up. The company is two years into the "market trial" of the "Picturephone meeting service," which shows up to six people on a single screen, allowing busy executives to hold long-distance meetings at which they can see charts, graphs, and live pictures of their fellow executives sitting in AT&T studios trying to look attentive. The system has

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received an "excellent reaction" from consumers, an AT&T spokeswoman recently told *The New York Times*. It is used, she said, by a total of ten customers a day.

In comparison with its expenditures for chronic overcapacity and misguided projects, the amount Bell spends on charitable contributions appears puny. A mere $14 million, for example, was involuntarily given by phone users to charities in 1972. But this charitable giving is important, not because of the amounts involved, but because of what it says about the way Bell operates. Why, one wonders, hasn't Bell stopped its controversial charity—why not make this small but visible concession to the industry's gadflies? Part of the answer may lie in the statements of a former Bell executive from Texas, who described how he came to be a charity organizer: "He [the mayor of a Texas city] said I ought to take on the United Fund campaign and he saw I was appointed to run it. Well, I put it over. Used a lot of Bell manpower. In a short time, I was one of the top guys in town. They knew that when it came to asking for a rate increase, I could be trusted."

For Bell, contributions to civic, charitable, and educational organizations are worth infinitely more than the petty millions they cost. By giving, AT&T wins a lot of friends. When one bill Bell was pushing came before Congress, all sorts of organizations from all over the country wrote to the appropriate congressional committees urging its passage—organizations ranging from the Philadelphia Volunteers in Aid of Sickle Cell Anemia, Inc., to the High Point, Washington Senior Citizens Club, all of whom had undoubtedly seen examples of AT&T's generosity.

And that's the second half of the Bell story—the process by which AT&T has succeeded in dominating the regulatory processes that are the only existing check on its expensive expansionist imperative. One secret of this success is undoubtedly reflected in Bell's charitable works. I discovered it for myself while writing this story. The Bell people I interviewed may have suspected that I wasn't out to prove the AT&T slogan that "the system is the solution," but they were nevertheless invariably personable, knowledgeable, and generous with their time. It didn't seem a self-serving kindness either; talking with AT&T executives, you got the impression they were the type who would go out and work for charities regardless of whether it was in their employer's interest. The competent organization man whom you'd want as your neighbor—that's the sort AT&T traditionally has liked to attract. There are probably few people in Washington or state government, at least few who count for AT&T, who don't have some favorable contact with Bell executives, even if it is only that a close friend is one, or that their favorite nonprofit institution has been the beneficiary of Bell's largesse. The mixture of this good will with AT&T's economic clout has helped to insulate the utility from the sort of scrutiny that might ensure we're not paying for more than we're getting.

Two Sets of Books

The high point of AT&T's mastery of the public institutions that are supposed to oversee it may have been the day in 1969 the utility went up to Capitol Hill and came back with $11.3 billion. The occasion was the consideration of President Nixon's Tax Reform Act, which contained a provision, popularized by President Kennedy, allowing companies to "accelerate" depreciation of their assets for tax purposes. The provision lets firms deduct a high percentage of their investments as expenses on their tax forms, so they can use the tax saving for new investments. Now it's pretty doubtful that utilities need any more incentive to invest than they already have. President Kennedy, when he introduced his famous tax cuts, felt they didn't, and urged Congress to exclude utility companies from the investment incentive plans.

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But the utilities successfully managed to play up the "free enterprise" side of their image, and Congress never bothered to exclude them. So even prior to 1969, some utilities switched over to accelerated depreciation.

In many states the utilities also began keeping two sets of books—one for tax purposes, using accelerated depreciation, and another for the rate regulators that used the old "straight-line" depreciation system. Of course the set of books using accelerated depreciation, which showed a much lower tax liability, reflected reality—but the utilities went ahead and sought rates that would recover the mythical taxes shown on the second set of books. Some state regulating commissions wouldn't buy this scheme and ordered the utilities to return the difference to consumers. Until 1969, AT&T used the straight-line method in those states where the regulators ordered the tax savings distributed, and the dual bookkeeping system where the savings were allowed to flow into the company treasury.

Around this time AT&T was having problems raising the amount of capital needed to satisfy its expansion plans. A bad stock market made issuing new stock difficult, and the company had been forced to borrow from banks at high interest rates. A *Business Week* article during this period noted: "Wall Street's money managers are concerned about Bell's seemingly insatiable appetite for outside capital to expand and modernize its facilities." (Indeed, in 1977 AT&T's capital requirements equaled an astounding 14 per cent of the net new capital raised by all non-financial companies that year.) Bell's managers complained loudly in the press and in the halls of Congress about their difficulties in raising cash. Yet few asked them the obvious question: Why did AT&T need so much investment capital? IBM, a large company in a field where machinery becomes obsolete and must be replaced rapidly, was investing nowhere near the percentage of AT&T.

Instead of scaling down its expansion plans, Bell seized on accelerated depreciation as a way to obtain the dollars it couldn't raise in competition with other firms on the money markets. Its vehicle was a bill before Congress designed to make it impossible for state regulatory commissions to require utilities to return to consumers the taxes saved by using the accelerated accounting method.

Although the legislation attracted little attention in the press, the showing in its favor was impressive. A.L. Stott, an AT&T vice president, predicted that increased investments by utilities would mean a stimulated economy and more jobs. Stott was aided in his presentation by Robert Nathan, a well-known economist. Nathan produced a series of upward-pointing charts and graphs dramatizing the anticipated stimulative effect. Undersecretary of the Treasury, Charls E. Walker, appearing for the Nixon administration, backed Stott's view. At no time did Stott or Walker hint that AT&T stood to gain billions from the provision. Instead, Stott characterized the bill as a mere loan, a "postponement" of taxes.

Only a handful of state and federal regulators testified against the bill. They argued that the utility companies needed no additional incentives to invest, and that any tax savings should be passed on to the consumers who ultimately must pay utilities' taxes. But it is clear, from reading the transcript of the hearings, that the congressmen were sympathetic to the utilities, viewing them as ordinary businesses. One regulator, from California, felt compelled to establish his credentials as he sensed the committee's coolness: "I am no enemy of utility companies," pleaded California Commissioner Fred Morrisey. "I had the distinction of being called by Drew Pearson a pro-utility regulatory commissioner. I was appointed by Governor Reagan."

But conservative credentials were no match for the combined weight of AT&T and the Nixon administration. The bill "postponing" taxes quickly became law, and America's utilities,

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including AT&T, switched over completely to accelerated depreciation. In reality, of course, the bill was much more than a mere "postponement" of taxes. AT&T may never have to repay the taxes postponed under the 1969 bill; before they become due the utility most likely will have made more investments, on which it can take more deductions for accelerated depreciation. The taxman will only be paid if AT&T stops expanding. As John E. Harrington, assistant controller of AT&T, told a *Business Week* reporter, that possibility is "no more likely than Armageddon."

The savings realized by the utilities from the 1969 revision (and from a similar law passed in 1971) have been staggering. Utilities as a whole have saved—and retained—over $20 billion in taxes, with AT&T's $11.3 billion take representing the lion's share. The "postponement" of taxes now appears more like a huge gift from the American public to Bell. (It is fitting that at least a small portion of this bonanza was realized by those who helped to bring it off: since he left the government, Charls E. Walker has started his own consulting firm and received over $230,000 in fees from AT&T.) The only threats to further savings by the utility are the efforts of a few state regulatory commissions—most notably California's—that think they have found a way around Congress' 1969 law. If they succeed, and other states follow suit, Bell will undoubtedly troop back to Capitol Hill asking for help.

Of course, Congress doesn't always give AT&T what it wants. For example, the "Consumer Communications Reform Act," introduced in 1977 with almost 200 congressional sponsors, would have effectively eliminated AT&T's competition in the business communications industry, and probably thrown the Justice Department's antitrust suit out of court. However, the act quickly became known as the "Bell Bill," and one of the subcommittees that studied it ended up recommending greater, rather than less, competition in the industry.

Moreover, at the time Congress took up the "Bell Bill," a series of scandals was breaking out across the AT&T empire, revealing the darker side of Bell's efforts to influence the governments—particularly state governments—on which it depends.

Some trace the beginning of what have been called the "Bell scandals" to the night of October 17, 1974, when T.O. Gravitt, the 51-year-old head of Southwestern Bell's Texas operation, went into the garage of his $120,000 house, climbed into his car, and turned on the motor. Gravitt left a suicide note that began "Watergate is a gnat compared to the Bell System." He also left a nine-page memorandum accusing his company of using political payoffs, illegal wiretaps, and questionable bookkeeping to get phone rates increased. John Ashley, a friend of Gravitt's and a fellow Bell executive, repeated some of these charges to the press. Officials of Southwestern Bell fired Ashley and accused both men of lying, saying that they had been under investigation by the company for some time—Ashley for embezzling company funds and Gravitt for "sexual misconduct." Ashley then teamed up with Gravitt's widow and filed a $29-million slander suit against the company.

The testimony in this suit has opened the door on a world previously hidden, a world where phone company executives falsified expense vouchers and kicked back portions of their salaries in order to accumulate political funds used to influence public officials. In presenting its case, the phone company has concentrated on establishing the incorrigible lust of the deceased Gravitt, rather than answering his charges. Much testimony has centered on the company's claim that one afternoon Gravitt, who was piloting the company jet, set the controls on automatic pilot in order to seduce a female passenger who was also a Bell employee. (This heedless

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consummation, the company alleged, took place high above the clouds between San Antonio and Laredo.) Ashley countered with charges that Southwestern Bell used lust to make money. He described a three-day orgy he says the phone company staged at a TraveLodge Motel in San Antonio for politicians who could influence phone rates. Bell women employees, Ashley said, were used as party girls at this and other affairs.

Needless to say, Ashley's lawsuit has attracted a good deal of attention. But it is still in litigation, and the major result so far is that Southwestern Bell must pay Ashley $1 million because the company was caught using illegal wiretaps to listen in on him as he prepared his case for court. Other and perhaps more far-reaching results of the case have occurred outside the courtroom. The suit triggered an investigation by the Texas state legislature during which a Bell lobbyist admitted that he collected $1,200 a month from Bell executives in Austin for a political fund that he kept in cash in his office safe. The investigation also revealed a luxurious Bell-leased ranch and hunting lodge where public officials, journalists, and AT&T officials sat in padded swivel chairs in carpeted shooting blinds as they fired out at deer and pheasant. Thousands of dollars in company money were spent for food, liquor, guns, ammunition, and the services of a full-time cook and housekeeper.

Even when Texas Bell officials were not trying to impress politicians, they were not exactly stingy with the phone users' money. The state legislature's investigation uncovered one five-day conference of 136 Bell executives in 1973 where the liquor bill came to over $13,000 and the bill for golf balls was an incredible $1,650.

While AT&T officials in New York watched this unfolding public relations disaster, all the while insisting it was an isolated case, another scandal broke out, this time in North Carolina. Again a disaffected executive blew the whistle. It seems John Ryan, an up-and-coming $65,000-a-year manager in Bell's North Carolina division, was quietly eased out of the company in 1973. He appeared to be taking the blame for a scheme unveiled by local reporters involving Bell executives who filed bogus expense vouchers and then made political contributions with the money. AT&T conducted an "internal audit" and found that $142,000 had been "misappropriated" in this way—but Ryan and the other executives were not prosecuted because the company admitted it had authorized the arrangement. When Ryan left Bell some years from retirement age, he was given a $75,000 tax-free payment, along with a monthly "pension" of $1,151, in return for his promise that he would not sue the company.

But as time passed, Ryan brooded and came to believe he had been ill-used and then cast aside by AT&T. In 1974, when he read about Gravitt's suicide in Texas, he considered killing himself. But his self-pity slowly turned to anger, and in 1975 he filed suit against his former employer and decided to talk to the press. The result

Next Month:

The Washington Monthly's

Tenth Anniversary Issue

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of this last decision was a superb but little-noticed series of investigative articles in the *Charlotte Observer* that used Ryan's inside knowledge to show that Texas and North Carolina were definitely not isolated cases. The *Observer* summed up:

"In sworn testimony and in interviews with *Observer* reporters, the executives paint a picture of virtually uncontrolled use of company money in efforts to influence public opinion leaders and regulatory officials and provide a good life for company officials."

The *Observer* series showed that in 15 states, executives contributed between $50 and $100 a month to secret political funds used to influence public officials in rate-making cases. Soon there emerged, from the *Observer* and other sources, a definite national pattern in AT&T's subsidiaries of seeking increased phone rates through questionable means. These included falsified expense accounts used to create political slush funds, "public relations consulting fees" paid to local officials, and free vacations for state regulators. Among the latter, hunting trips seem to have been especially popular. (Georgia officials shot doves in Mexico, while Missouri regulators preferred the pheasants in Texas.)

As with many political scandals, the most shocking fact about these sleazy dealings is that AT&T felt it had to resort to them at all. With respect to both the states and the federal government, the company seemingly operates at a tremendous advantage. AT&T's size alone presents an imposing barrier to effective supervision. And Bell's monopoly on information makes it extremely difficult for regulatory commissions to even question the phone company's latest investment plans. Still, there are things AT&T must worry about—in particular, there is the danger that it will alienate both the business community and the consumers on whose good will it depends.

Decision for the Democrats

Reforming the Party Structure

William J. Crotty

In an incisive analysis of the events that led from the Chicago convention in 1968 to Jimmy Carter's successful bid for the presidency in 1976, William J. Crotty describes a period of reform almost unprecedented in the history of two-party politics — the most thorough reordering of priorities and processes in the Democratic party since the era of the Progressives. Crotty's study of the "opening up" of the Democratic party provides an effective means for both assessing recent political history and for speculating on the influence this important reform movement will continue to have on the future of American politics. $16.50

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On Wall Street, you might expect AT&T to be the broker's favorite—the growth stock of the century, able to generate reasonable and certain returns on a constantly expanding group of investments. It is not. Since an excessive rate of return would be an embarrassment to AT&T with the ratemakers, the company has developed a healthy layer of fat designed to absorb any surpluses before they become too visible. It is not surprising, therefore, to find that AT&T workers are, on the whole, extremely well paid (even for non-supervisory employees, phone industry wages are 47 per cent above those in U.S. industry as a whole), or to discover that the company employs buildings full of bureaucrats with vague job titles and even vaguer duties. In many ways, the philosophy of AT&T is similar to that of a government agency caught with a budget surplus: "spend it or lose it." And as the organization helps itself to the spoils of power, and becomes less accustomed to trimming unnecessary expenses, fewer of the dollars it takes in find their way back into the hands of the shareholders. In fact, financial analysts on Wall Street regard AT&T as something of a clumsy giant that squanders its huge intake of investment dollars on its internal needs, and produces only a modest return for investors.

Consumers of phone services have been slower to catch on to AT&T's defects, even though they ultimately foot the bill. What anger there is usually has been directed at the potential arrogance of Bell's monopoly power—the image created by Lily Tomlin's parody of AT&T's television ads, in which she plays a phone operator who gaily walks down a row of connecting wires, ripping some out at random and saying "We're the Phone Company. We don't care. We don't have to." The power of the phone company to annoy, or even injure, through unjustified cutoffs of service is genuine. But, as the FCC staff report showed, the greater outrage may be the way Bell spends our money on facilities we don't need and services we never get. Abuses like arbitrary cutoffs and discriminatory rates are fairly easy for regulatory bodies to detect and halt. Unnecessary investment, on the other hand, seems to be next to impossible to stop, and we are paying billions for it. Most analysts of the industry believe, however, that as long as the phones keep working as well as they do, Bell is safe from any meaningful attempt to limit how much it ends up charging us for that service. For AT&T the system really is the solution.

Still, there are stirrings of change. One cropped up in New Hampshire last November, when Governor Meldrin Thompson went before the voters seeking reelection. Thompson was a popular conservative maverick, and he was expected to win easily. The Democratic challenger, a relative unknown named Hugh Gallen, did manage to latch onto one issue, however. The Governor had strongly supported the construction of a nuclear power plant at Seabrook, and electricity rates had been given a hefty boost to pay for the investment. Gallen repeatedly accused Thompson of selling out to the utilities—so repeatedly that the campaign became a single-issue contest. What's more, Gallen won.

To utilities like AT&T, which are used to hiding behind the complexities of "rate bases" and "accelerated depreciation"—at least when posing as competitive enterprises fails—Thompson's defeat must have come as a jolt. The election showed that voters are quite capable of understanding how the public is forced to pay for the unnecessary investments of a regulated utility. It helps, of course, if the investment in question is a controversial nuclear plant rather than a diffuse network of cables and switches. But the message is clear nevertheless—and if the voters of a conservative state like New Hampshire are sending it to us, maybe we all should listen in. AT&T certainly will. ■

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Tidbits and Outrages

The Secrets of Congressional Relations

You heard, of course, of Patricia Roberts Harris' assistant at HUD who sent 235 congratulatory mailgrams to reelected Democratic congressmen, addressing them to "The Honorable Mr. or Mrs." and neglecting to insert names. But perhaps you missed the letter Frank Moore, President Carter's assistant for congressional liaison, sent to Rep. Peter H. Kostmayer: "Knowing of your long and difficult campaign, I was sincerely sorry about the results of Tuesday's election. I enjoyed working with you in Congress and I will miss your contributions to the legislative process. I wish you every success in the future." Kostmayer had been reelected.

Great Moments in Law...

On November 6, 1978, attorney Mark Lane wrote a letter to Rep. Leo Ryan that said, among other things: "Since I represent the People's Temple in various matters, I should be happy to meet with you and tell you of my experiences in Jonestown and with Jim Jones.... You should be informed that various agencies of the U.S. Government have somewhat consistently oppressed the People's Temple and sought to interfere with the People's Temple, a religious institution. I am now exploring the matter fully in order to bring an action against those agencies of the U.S. Government that have violated the rights of my client. Some of the members of the People's Temple have had to flee from the U.S. in order to experience a fuller opportunity to enjoy rights which were not available to them within the U.S."

...And the Foreign Service

One clue as to why the U.S. Embassy in Guyana didn't discover the truth about Jonestown may be in the following passage from Charles Krause's instant history of the tragedy: "I ... stopped by the American Embassy to... try to get a briefing on the Reverend Jones and his colony. I met Richard Dwyer, the deputy chief of the mission, [and] learned that our visit—because of Ryan's presence and the presence of the contingent of journalists—was the biggest thing that had happened to the American diplomats in a long time.

"But that didn't stop Dwyer and other embassy personnel from heading off at 11:30 A.M. for the weekly luncheon meeting of the Georgetown Rotary Club...."

As-gay Urplus-say

Remember how we were told we had to deregulate natural gas to avoid a shortage? At the moment, there is no shortage. There is a glut. Luckily, the public relations men have come to the rescue and now, we are told, there's only an "overdeliverability situation."

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National Hat Association Pickets D. C. Night Spot

elan, a nationwide establishment that bills itself as "A Club for the Dashing," recently opened a branch in Washington. Annual dues are $300, but a lifetime "Esprit card" costs only $1,000. Before you join, be sure to read the "statement of club policies," which includes the following dress code: "Club standards require attire, grooming and demeanor appropriate for fashionable restaurants or private clubs catering to sophisticated adults. Ties are not required. . . . The following types of apparel are generally prohibited: denim, corduroy, or other very casual jeans except when worn as part of a highly fashionable ensemble. . . ladies' casual halter or similar tops. . . men's hats."

An Unfinished Legacy

William L. Scott, who is retiring as United States Senator from Virginia, was asked by Donald Baker of *The Washington Post* to name his greatest legislative achievement. He replied that it was a resolution "establishing American Business Day." The bill, Scott said, passed the Senate, "but the House would not consider it."

Common Denominator

According to Ralph Nader's Congress Watch, candidates who outspent their opponents won 85 per cent of this year's contested Senate races. Senator Jesse Helms of North Carolina anted up $6,351,000 to beat the $217,000 spent by the Democratic challenger for his seat, John Ingram. The expenses of Sam Nunn of Georgia were 96 times those of his rival, while David Pryor of Arkansas outspent his opponent by a factor of 71.

Middle East Shuttle

Last November Senator Robert Byrd went to the Middle East. Geoffrey O'Gara of States News Service attempted to find out where Byrd would be stopping, who was traveling with him, and who would pay the bill. To find the answer, O'Gara had to call the following offices, some of them several times: Byrd's press office, the White House press office, the National Security Council, Byrd's office, the State Department press office, the State Department Near East desk, the State Department congressional relations office, the State Department congressional travel office, the Majority Leader's office, the Senate Finance Committee, the Senate financial clerk's office.

Sisters Unite

"Nancy Hammer, the 48-year-old wife of a prominent Pittsburgh executive, has gone back to work. She currently earns nearly $20,000 a year as director of public relations for Chatham College in this city's fashionable East End.

"Mrs. Hammer doesn't need the money. The income of her husband—Gulf Oil Corp. executive vice president Harold H. Hammer—is comfortably in six figures. Instead, she wants the sense of professional achievement and satisfaction that she feels only a full-time, well-paying job will provide.

"Across town in the blue-collar suburbs, Judith Wynn, 30 years old, also has gone back to work. She wasn't seeking any sublime personal satisfactions when she took a $2.95-an-hour job as a sales clerk at Gee Bee, a local budget department store. Rather, she wanted to supplement the $12,000 her husband makes annually as a truck mechanic. The extra income helps her family 'get by,' Mrs. Wynn says; returning to work means she can buy new clothes and better food for her two children.

"But if the Wynns are moderately better off because a wife went to work, consider how the Hammers have fared: With Mrs. Hammer earning more than three times as much as her cross-town counterpart, the gap has widened between the Hammer family's income of well over $100,000 and the Wynn family's income of about $18,000."

—David Ignatius in *The Wall Street Journal*

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The American Connection:

HOW ISRAEL GOT THE BOMB

by John J. Fialka

During the late 1960s, Central Intelligence Agency operatives were able to prove something that U.S. officials had wondered about for several years. The question was whether Israel had quietly entered the world's nuclear "club," a possibility that had long been suggested by U.S. scientists returning from the Middle East.

The answer was yes. The CIA's highly sophisticated array of monitoring equipment had found evidence that somewhere in Israel there was a laboratory working with sizable quantities of highly enriched uranium—the same metal used to incinerate Hiroshima in the closing days of World War II.

Once the Israeli capability had been established, the question became: which of the five nations that then enjoyed club status was the source of the Israeli material?

And the answer, at least from what the CIA could see, was that the bomb-grade metal had come from the U.S. The prime suspect was a private company, the Nuclear Materials and Equipment Corp. (NUMEC), located in Apollo, Pennsylvania, a small town about 30 miles northeast of Pittsburgh.

The NUMEC story is one of the more bizarre mysteries of the nuclear age, a tale that continues to baffle U.S. officials despite repeated inquiries by three of the nation's top investigative agencies—the CIA, the FBI, and the General Accounting Office.

Their suspicion was that the nation's most vital safeguards system had been penetrated by one of our closest allies. It was, as one highly placed source later described it, "like dealing with the fact that your sister has been raped by a dear friend. It's not the sort of thing you rush to make public."

The result was that, from the beginning, a sizable cocoon of secrecy was built up around the case, secrecy that did not begin to crumble until nearly a decade later, and then only because of the extraordinary lengths to

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which the government had gone to cover up.

The unraveling began in 1975, when James H. Conran, a young analyst in the division of safeguards of the Nuclear Regulatory Commission (one of the two agencies formed when the Atomic Energy Commission dissolved in 1975), was assigned to put together a history of the development of safeguards protecting the use of what the government called SNM, or Strategic Nuclear Materials. In the course of his research, Conran discovered that there was one file so secret that the other half of the old AEC, the Energy Research and Development Administration, refused to admit knowledge of it. If the file concerned NUMEC, then Conran guessed it was probably important, because he knew that the company's chronic security problems had triggered the nation's first major overhaul of the rules covering the growing traffic in SNM. He became convinced that he could not write an accurate history of safeguards without knowing the full story of NUMEC.

Conran began raising the issue with his superiors. How could the NRC carry out its responsibility to protect against possible diversions of nuclear materials if it was not fully informed about incidents that may have occurred in the past? In December 1975, Conran's questions caught the ear of Edward Mason, then one of the NRC's five commissioners, who, in turn, brought the matter to a head by telling the chairman of the NRC, William A. Anders, that if there was CIA material concerning NUMEC, as Conran suspected, the NRC was entitled to a briefing.

Two months later, the NRC got that briefing, from Carl Duckett, then the CIA's deputy director for science and technology and one of the government's official keepers of the NUMEC secrets. (Conran was not invited.) As some of the NRC commissioners recalled the briefing, Duckett's hands were shaking as he produced a file on the conference table. It was stamped "Top Secret," the highest national security classification. It was so secret that its existence was classified a secret. Duckett told the NRC commissioners that by the mid-1960s, the U.S. had come to suspect that Israel had a nuclear weapons capability. The evidence included a type of bombing run being practiced by pilots of Israel's A-4 jets. According to Duckett, the maneuver "would not have made sense unless it was to deliver a nuclear bomb."

From this and more direct evidence gathered by the CIA, Duckett said, in 1968 the agency had drawn up a National Intelligence Estimate reporting Israel's entry into the nuclear club and submitted it to Richard Helms, then CIA director. Helms, Duckett recalled, told him not to distribute the estimate to other sections of the CIA or outside the agency, and added that he would take the report directly to President Lyndon Johnson. (In the subsequent meeting with Johnson, Helms was told in no uncertain terms to drop the matter. "Don't tell anyone else, not even Dean Rusk [then Secretary of State] and Robert McNamara [then Secretary of Defense]," Johnson allegedly instructed Helms.)

A small part of the Duckett account was later mistakenly released by the NRC. In that fragment there is no mention of NUMEC as the source of Israel's alleged A-bomb capability. There is, however, mention of NUMEC's founder and first president, Dr. Zalman Shapiro, and it is clear from the reference that he had been the topic of some discussion during the briefing. At one point, Mason exclaimed, "My God, I almost went to work for Zal Shapiro. I came pretty close to taking a job with him."

"By the end of the meeting it was a pretty somber group," Duckett would later recall for the benefit of NRC investigators. Anders, he said, announced that, "in light of the sensitive nature of the information, he was going to the White House" with the NUMEC story. After he did,

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President Ford promptly ordered the FBI to begin a new investigation of NUMEC's activities during the mid-1960s.

None of this high-level concern was much help to Conran or other safeguards experts at the NRC. Carl Builder, then the NRC's top safeguards official, had attended the briefing and decreed that because of its great sensitivity, the episode was "better left closed." In fact, the eleven NRC officials at the briefing had been so awed by the secrecy surrounding the file that they did not even ask to see it.

There was no question, then, that the NUMEC material was very sensitive. Some of the FBI agents who had worked on the case had been warned never to mention its name, not even in the FBI office. But in the never-never world of Washington's intelligence community, what is regarded as sensitive in one forum may not be treated as sensitive before another; only a month after Duckett's briefing at the NRC, word of Israel's bomb capability leaked out.

The leaker was none other than Duckett himself. It happened during an evening of many cocktails and a lavish buffet—an event staged by the CIA at its Langley, Virginia headquarters, as part of its new "public relations" program. The guests were 150 members of the American Institute of Aeronautics and Astronautics. Presiding over what was billed as an "unclassified" state-of-the-world intelligence briefing, Duckett apparently felt relaxed among the aerospace executives and familiar surroundings—so relaxed that when one executive wondered during a question-and-answer period whether the rumors about Israel having the bomb were true, Duckett set him straight. Israel, he said, "has ten to 20 nuclear weapons ready and available for use."

Four days later, when an account of Duckett's remarks appeared in *The Washington Post*, there was a non-nuclear explosion within the executive suite at Langley. George Bush, the CIA's new director, was fuming. So was Senator Frank Church, at the time the chairman of the Senate Select Committee on Intelligence. Church called Duckett's remark "the biggest goof in the history of leaks that I have ever seen."

But while everyone expressed outrage over the disclosure, no one other than Israel denied it. And no one, publicly at least, took it upon himself to explain or speculate upon how a tiny country in the Middle East had obtained what was commonly believed to be the most tightly guarded substance in the world.

Helping Israel Over the Threshold

It is very, very difficult to obtain highly enriched uranium. The largest technological stumbling block encountered during the Manhattan Project, which developed the bomb during World War II, was separating an exotic isotope—U-235, so-called highly enriched uranium—from natural uranium. The problem eventually was solved by investing over $1 billion in a mile-long building at Oak Ridge, Tennessee, where the uranium was transformed into a gas called uranium hexaflouride and pumped through millions of tiny screens that concentrated the lighter isotope, U-235.

That was one way to do it. Russia, the United Kingdom, France, and China used this or similarly complex technological processes to arrive at highly enriched uranium or plutonium. But Israel was different. They had the metal, but, the CIA concluded, they didn't have the technological capability to produce highly enriched uranium. Somebody had helped Israel over the threshold.

It didn't take long for the CIA to focus its suspicions on NUMEC, which had been giving federal regulators fits since 1961. The company had been formed in 1957 by Shapiro and a group of other former government scientists to capitalize on the Atoms for Peace program. Shapiro was a research chemist, a veteran of the Manhattan

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Project, and the author, according to NUMEC brochures, "of a large number of classified documents."

When Shapiro first set up shop, everyone seemed to want to be kind to NUMEC. Admiral Hyman Rickover bestowed his lucrative nuclear fuel contracts on the firm. A Pittsburgh corporation, Apollo Industries Inc., advanced $450,000 in capital and also provided, rent-free, a former steel fabrication plant. Shapiro quickly gained a reputation in the nuclear industry as a hustler, competing furiously for government contracts and taking on some of the more exotic, risk-filled jobs that other companies rejected.

His business flourished. In addition to American contracts, Shapiro developed a string of foreign clients who wanted uranium fuel for various nuclear processes. Between 1957 and 1965 NUMEC shipped half a ton of U-235 to authorized overseas clients, primarily Italy, Japan, France, Germany, and the Netherlands. "There is no reason why we can't eventually become the du Pont of the atomic fuel industry," he once told a *New York Times* reporter. "We're not afraid of size or growth. It's healthy."

At the same time another, less healthy side of Shapiro's business was evolving. Documents released recently by the Department of Energy show that by 1961 NUMEC had come to be regarded as a serious security risk. "It appears that the lack of an effective program can be attributed to a general apathy toward security which has permeated the entire NUMEC organization," stated one AEC report after two security inspections.

What troubled the AEC even more was that the plant's bookkeeping had gone out of control. Although NUMEC's contracts with the government specified that none of the government-owned highly enriched uranium at the plant could be mixed with uranium from other contracts, Shapiro had been mixing the metal from different contracts "as a matter of policy." Because of U-235's peculiar qualities and the enormously expensive and complex processes required to make it, accurate accounting of its use is at once a matter of great strategic and financial importance. One gram of highly enriched uranium—about as much as could be placed on a pencil head—was worth $10 in the early 1960s. One cubic inch of the extremely dense metal weighs about a pound and was then worth slightly more than $4,500; 22 pounds of the metal, a chunk about the size of a cantaloupe, would have been worth about $100,000. Actually it is worth infinitely more than that, because that much U-235, in the hands of an expert, can be made into a small atomic bomb.

NUMEC's sloppiness generated a small mountain of classified correspondence within the AEC. At one point in 1962, the agency's New York office suspected that Shapiro was intentionally blurring the distinction between government-owned metal and metal held under private contracts. The company's liability for lost uranium was less under the government contracts, and, sure enough, the heaviest losses were showing up in the government's column. At the very least, the absence of records that could trace losses to a particular process or to a specific contract meant that Shapiro was operating what was, in effect, an honor system.

There was another problem—according to recently declassified documents, the AEC became concerned about several of Shapiro's overseas relationships that went well beyond normal supply contract arrangements. One of these was an arrangement with Israel under which NUMEC agreed to serve as a "technical consultant and training and procurement agency," which later gave birth to ISORAD, a NUMEC subsidiary half-owned by the Israeli government. NUMEC's annual financial statements said the company's mission was to develop machinery to preserve strawberries and citrus fruits through irradiation.

Throughout the 1960s, a steady

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stream of foreign scientists and technicians visited NUMEC. Among those with whom the AEC, and later the FBI, seemed most concerned were Baruch Cinai, an Israeli metallurgist, and Ephraim Lahav, the scientific attache to the Israeli embassy in Washington. Both made frequent visits to the plant. At the time, NUMEC housed 2,400 classified documents, including detailed descriptions of secret military research and development programs. After several warnings, including a letter from Rickover's office that a failure to apply strict controls on the aliens could amount to a violation of espionage laws, the AEC concluded in late 1963 that the security message was still not getting across. NUMEC "did not have positive controls for its alien employees," and a more rigorous set of AEC inspections was proposed for the following year.

Uranium in the Pits

Throughout this period, Shapiro often took the offensive against AEC inspectors, arguing that new security measures implemented at the plant would eliminate all future problems and that any further interference with NUMEC's normal operations would amount to discrimination against a small businessman trying to compete with major companies. The end of the often-heated dialogue came on April 30, 1965, when the fears of the inspectors suddenly became much more concrete. NUMEC was due to complete a contract for Westinghouse, which had sent NUMEC a large amount of U-235 fuel for a nuclear-powered rocket then being considered for the nation's space program. No new uranium supplies were coming into the plant, so the mixing that had troubled AEC inspectors was no longer possible. Instead, Westinghouse was told the startling news: NUMEC didn't have all of the uranium. At first it appeared the loss was 134 pounds, enough to make roughly six atomic bombs. Shapiro found he had some explaining to do.

Shapiro reassured everyone that the loss was not much to worry about. The highly enriched uranium, he said, was not really gone, it was still there at Apollo in two big waste pits that had been dug in 1962 and 1963 to hold some of NUMEC's uranium debris. NUMEC, he claimed, had simply underestimated the amount of uranium filings, uranium oxide particles, and other fragments of the precious metal that could have been recovered from the filters, discarded machinery, workers' clothing, and other articles that had gone into the pits. In fact, Shapiro told the AEC, there was probably more uranium in the pits than had been lost on the rocket fuel contract.

To prove his point, Shapiro ordered his employees to begin exhuming items from the 1962 pit. A sampling quickly showed, however, that the pit contained only a small fraction of the highly enriched uranium wastes he had promised. So Shapiro shifted his ground slightly, arguing that most of it was really in the 1963 pit. The only problem, he said, was that because of the weather and various engineering considerations, he would not be able to dig up the pit until the following spring.

Howard Brown, then the AEC's general manager, and other AEC officials trying to account for the missing uranium weren't about to wait that long for an answer. A showdown occurred, on September 24, 1965, in a meeting in Washington between Shapiro and Brown, who brought along ten of his staff members. The meeting is described in several memos written to the files, one of which states that "Dr. Shapiro became emotionally overcome" when Brown and the others argued that he had to continue digging for the uranium. There was a ten-minute recess after which a more composed Shapiro admitted he was upset about the loss of several government contracts, which had contributed to recent business reversals. As one memo put it:

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"[Shapiro] reported that while he felt confident that the 1963 pit contained the missing material, he was reluctant to gamble that it might not be there. We [the AEC] pointed out that he was asking the Commission to gamble that it might not be there, thus placing the Commission in an untenable position."

By the end of the meeting, Shapiro caved in. The 1963 pit was quickly opened, and on October 21, NUMEC had to admit that samples of the debris revealed only about ten per cent of the highly enriched uranium Shapiro had said would be found. On November 1, a special team of AEC inspectors descended on Apollo and, after a two-week search, calculated that a total of 391 pounds of highly enriched uranium had disappeared at the plant between 1957 and November 1965. After factoring in reasonable estimates for all possible ways in which material could have been lost or wasted in various plant processes, the inspection team concluded that the loss of 206 pounds could not be explained, including the missing uranium from the Westinghouse contract. No similar plant had ever reported losses of that magnitude.

Because of the state of NUMEC's records, the inspectors were not even able to pinpoint when the major losses might have taken place. Some of the records, the inspectors discovered, had been "inadvertently destroyed" in what the company described as an overzealous factory cleanup campaign a year earlier. As a result, the conclusion of the inspectors' report was carefully hedged in language that set the tone for all future statements about NUMEC losses: "Although it cannot be stated with certainty that theft or diversion did not take place, the survey team found no evidence to suggest these possibilities." Two days after the report came in, Brown and NUMEC's lawyers concluded an elaborate series of negotiations over how much the company would have to pay for the missing metal. The final bill was $929,000.

But for the AEC, the search for the missing uranium wasn't over yet. Ever since the initial discovery, the agency had been prodded in its investigations by Congress' Joint Committee on Atomic Energy—and even with the money settlement the staff members on the committee weren't satisfied. There were still nagging questions they wanted answered: What did the records say about NUMEC's dealing with overseas clients? Were there any employees at NUMEC who might know about a diversion? Where was NUMEC getting the money to pay the AEC's enormous bill (after all, the company's economic fortunes had turned sharply downward)?

So Brown dispatched a second survey team to Apollo on March 1, 1966. Its assignment was to interview past and present NUMEC employees and audit all the company's exports of bomb-grade metal. This second team also returned without finding any direct evidence of a diversion, but its findings still were not altogether comforting.

James Hart, the engineer who served as production supervisor at NUMEC, told Brown's sleuths that prior to 1964 "no one at NUMEC really seemed to care what happened to SNM." The AEC auditors found that of the 32 contracts NUMEC had with foreign customers, the records of 26 "were incomplete, inaccurate, or missing."

The Most Artfully Hedged Statement

If there is a prize somewhere in Washington for the bureaucrat who constructs the most artfully hedged statement, perhaps it should have been awarded to the man who drew up the March team's report. The report concluded that, despite the missing documents, there were enough internal controls over the plant's overseas shipments that, "when properly implemented, should, in the absence of deliberate collusion, ensure that the quantities reported on transfer documents were those quantities shipped."

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Brown, now a lawyer in Washington, says that at the time of the report he still was not satisfied that there had not been any wrongdoing at the plant but did not think he had grounds for criminal prosecution: "I felt we had reached a point where we really had to fish or cut bait." The Atomic Energy Act, he complains, offered him no middle ground—it provided the death penalty for anyone who violated AEC regulations "with the intent to secure an advantage to any foreign nation."

"It [the law] was a very severe thing to work under," Brown explains. His boss, Dr. Glenn T. Seaborg, then the chairman of the AEC, attempted to close the matter by telling the Joint Committee that he was "satisfied" that the missing material had been lost in NUMEC's waste processes over the years.

And so, during the spring of 1966, even as a still-dissatisfied Joint Committee was dispatching a team from the General Accounting Office to see if they could do any better at NUMEC, the AEC went back to business as usual with Shapiro. Actually, it was a bit more than business as usual. NUMEC was solicited for a bid—and then was selected from a list of four companies as the one "best qualified"—to handle a contract calling for the fabrication of fuel from almost three tons of plutonium, by far the largest quantity of that bomb-grade material ever placed in private hands.

Even after this contract, NUMEC lapsed back into some of its old habits. In 1967, for example, Shapiro was asked to delay the plant's annual inventory because AEC inspectors would be late in arriving to oversee the operation. Shapiro ignored the request, and went ahead with his own inventory, a move, said the AEC inspectors, that made his inventory worthless as a tool to check the accuracy of the plant's books.

Shortly afterwards, NUMEC, the company that had hoped to become "the du Pont of the atomic fuel industry," was dissolved. In a proxy statement, the company explained that in 1966 NUMEC's net worth and working capital "were reduced below the levels required in various agreements with lenders, and a condition of technical default arose." The company, the statement added, had no alternative but to arrange for a merger with a major oil company, Atlantic-Richfield.

Not in The Top 40

The old NUMEC was gone but not forgotten. In 1967 a panel of the nation's top safeguards experts ordered an overhaul of the entire system protecting strategic materials. Among other things, the panel required for the first time government inspection of the quantity and quality of bomb-grade metals shipped for export, and called for a range of penalties less severe than life imprisonment or death for certain infractions. Asked about the report, Dr. Ralph Lumb, a chemist who headed the panel, said, "I believe the panel was established as the result of the experience at NUMEC. The inability of that company to come up with the material stimulated the commission to take a hard look at safeguard practices."

The CIA also had not forgotten the losses at NUMEC. In 1968, after obtaining scientific proof that the Israelis were working with highly enriched uranium at a facility near Dimona in the Negev desert, Helms went to J. Edgar Hoover and asked him to put Shapiro under FBI surveillance.

The FBI has told several congressional investigators working on the case that its surveillance showed that in 1968 Shapiro traveled throughout the U.S. recruiting scientists, all of whom were Jews, for work on various technical problems confronting Israel. The 1968 FBI investigation was hindered, according to agency reports to the Hill, by Shapiro's use of an "encoded phone," a device in an Israeli embassy office in New York City.

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Several attempts to crack the code reportedly failed.

In 1969, the new Attorney General, John Mitchell, wrote the CIA that he was closing the case because the Justice Department had no legal grounds "to hang its hat on." According to FBI sources, however, the surveillance continued afterward without the wiretap. At the time, Hoover was only allowed 40 taps for national security purposes and the Nixon administration had other pressing uses for them.

The FBI was not sent back into the case until 1976, after the Duckett briefing, and then only at the express request of President Ford. From what he saw of the case, though, Dr. James Connors, Ford's staff secretary, was led to the conclusion that the trail had become terribly cold. "You could look at all the documents and ask yourself whether something had happened here. The answer was probably yes. Then the question was whether you could do anything about it, and the answer was no." (Indeed, the FBI discovered that very little formal investigation had been done during the 1968 FBI probe. Most of the people who worked with Shapiro in NUMEC, for example, had never been interviewed. In the interim, memories had become hazy.)

The First Scare

The discovery, in 1965, that NUMEC had "lost" 206 pounds of highly enriched uranium was not the first time the AEC became concerned that its safeguard rules were lax. The first big scare came on October 16, 1964, when a nuclear fireball blossomed on a Mongolian desert, announcing that China had become the fifth member of the nuclear club. Fallout from the explosion indicated that it had been a uranium bomb. At that point, the Chinese were not known to have enrichment technology, and the AEC began to worry that somehow the metal for the Chinese bomb may have been diverted from the U.S.

A secret study called the "Labowitz report" was commissioned to see if there were any gaps in the nation's safeguards system. The report concluded that indeed there were, since the *only* restriction that was regularly enforced was the requirement that a company pay for all materials lost during processing. "Certain U.S. procedures might lack credibility," was the way the problem was later presented to a meeting of AEC executives. "There was a noticeable tendency both at certain staff levels and among contractors to conclude that as long as material was paid for, all responsibility toward it had been fulfilled."

Howard Brown, then the assistant general manager of the AEC, described, in a memo to his files, how the "gap" might work:

"Question: Is there any obvious way that a licensee or contractor licensee could divert materials to a foreign recipient?

"Answer: Yes, there is no method presently in existence to protect against overshipment by collusion."

In other words, a U.S. company could ship more than the authorized amount of U-235 to a regular customer. The customer could then dispose of the the excess amount as it pleased, perhaps reshipping it to a third party.

The CIA finally eased the concern over the Chinese bomb by locating a hitherto unknown Chinese uranium enrichment plant, but the conclusions of the Labowitz report continued to be extremely bothersome, especially when, only 6 months later, the AEC began to learn about the odd happenings at NUMEC.

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Around 1976 the National Security Council received a packet of information put together by NRC and ERDA weapons experts. The packet is still classified as secret, but the cover letter was later released. It explains that the packet was stamped secret "because we indicated the number of nuclear weapons that possibly could have been made if the material had been diverted."

Because of these and other strange footprints that remained along the path of the NUMEC case, by mid-1978 three congressional subcommittees, the FBI, and the GAO were going back through the old files and interviewing some of the old players. Interviews with a number of investigators and former figures in the case indicate that there are at least four working theories about what might have happened.

The first theory is that the Johnson administration, perhaps aided by CIA operatives, authorized the diversion to help Israel prepare for the mounting Arab military threats that culminated in the 1967 Six Day War.

The second is that NUMEC was a "free-lance" operation carried out by the CIA's powerful pro-Israeli faction, which might have pointed out the way and illuminated the loopholes that were waiting to be exploited.

The third theory is that the diversion was carried out entirely by the Israelis, with help from either Shapiro or his underlings, who knew that his sloppy administration of the plant would set him up as the likely target for any resulting investigation. Under this theory, the entire U.S. safeguard system, such as it was, was finessed by one of our closest allies.

And the fourth theory is that nothing happened. Almost a million dollars' worth of what should have been the most carefully guarded substance in the world simply disappeared, thrown away in processes that could neither be detected nor explained later.

One of the chief defenders of this last theory is Shapiro, who left NUMEC in 1969 to go to Westinghouse, minus his security clearance. "What we had was a small yield, high scrap operation," he once told a reporter. "If you're cooking a small thing in a large pot, then you have something that sticks to the pot."

According to more recent estimates made by the CIA, the initial source of the Israeli nuclear weapons capability is now a moot question, at least in strategic terms, because Israel has since built up a sizeable stockpile of plutonium using a French-made reactor operating at Dimona.*

In another sense, however, the NUMEC story raises what may be the scariest possibility in the whole scary area of SNM safeguards: the possibility that if something happens to nuclear materials that is profoundly embarrassing to the state, it will be self-concealing.

Of all those who have secretly worried over the strange and fog-shrouded anatomy of Shapiro's venture, perhaps Connor put it best: "I think that what you have here is one of those evergreen stories. It will come up to haunt each succeeding administration." ■

*The source of the natural or unenriched uranium fuel needed for this reactor was also a mystery until European authorities discovered that Mossad, the Israeli equivalent of the CIA, was involved in the bizarre disappearance of 200 tons of processed uranium ore from a Liberian ship, the *Scheersberg*, in November 1968. Shortly afterwards, the Dimona facility—estimated capable of producing enough plutonium for one bomb a year—was closed to all foreign visitors.

Where to Stay in Washington

will return next month.

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Richard Reeves on Political Books

I have always thought that one way to pick a place to live is by the number of Chinese restaurants in close proximity. It's not so much that I like Chinese food, but that experience indicates that the number of Chinese restaurants in a neighborhood is roughly proportional to the number of Jews living nearby. Which means that schools will be better and. . . well, I have always agreed with something said by former California congressman Thomas Rees after we had spent a deadly evening with some of our fellow WASPs: "Ah, you know me, I'm bored when there are no Jews around."

Thank God and the Dutch West India Company, there have been Jews around America since at least 1654, when 23 of them, driven forcibly from Brazil by the Portuguese, arrived in New Amsterdam. The Dutch governor, Peter Stuyvesant, whose statue I used to guard as a patrol boy in grammar school, tried to throw them out. He was told to mind his own business by his bosses, the directors of the Dutch West India Company, a group back home that included a couple of Jews and several devotees of Dutch religious tolerance. So they stayed even though Stuyvesant would not let them build a synagogue, a privilege they were finally granted by the city's new rulers, the British, in 1682. (The British, incidentally, still refused to allow Roman Catholics and Lutherans to build churches.)

For most of this information, which I found fascinating, I am indebted to Max I. Dimont, the author of *The Jews in America: The Roots, History, and Destiny of American Jews*, which will be published this month by Simon and Schuster. It's a rather straightforward account of the growth of the original 23 into six million Americans—with the possible exception of Episcopalians, the richest and most influential religion-based community in the United States. Among other things, Dimont confirms what everybody already knew: 33 per cent of America's doctors and 17 per cent of her lawyers are Jewish, not bad for people who are less than three per cent of the population.

Richard Reeves is the author of Convention. *His column is a regular feature of* The Washington Monthly.

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Not bad at all. Dimont, who focuses on the religious development and transformation of Jews here, asserts—accurately, I think—that America is The Promised Land. "Collectively," he writes, "the American Jews are one of the most remarkable groups in the world. A society of six million Jews has attained the highest economic, educational (non-Jewish), and social levels in Jewish history, and enjoyed a degree of freedom never before attained in any country, in any civilization, in any age, including the kingdoms of Judah and Israel in ancient days, and the state of Israel today."

Focusing on Judaism as religion and culture, Dimont chronicles Jewish fears and concludes that they are just old fashioned:

"Viewed through the lens of orthodoxy, American Judaism is in grave danger. As one Jewish leader succinctly summarized the threat: 'Fewer than half of American Jewish households belong to synagogues. Close to 40 per cent of all Jews are marrying non-Jews (compared to six per cent 20 years ago). Religious school enrollment has plummeted to 400,000 in the last 15 years, down one third from a high-water mark of 600,000. . . . It has been forecast that the forces of assimilation, lowered birth rate, and increased intermarriage will reduce today's six million American Jews to 4.5 million in 25 years.'

"[But] American Judaism will not only preserve the Jewish heritage but will serve as a vehicle for its enrichment. . . . The synagogue as a 'museum' may persist in Jewish life for another century or so, until the new institutions destined to replace it have gained the confidence of the Jews. . . . American Judaism no longer expresses itself mainly through the culture of the synagogue but through the culture of organizations. . . . The real problem is the preservation of the Jews and Judaism, not whether it is done within the confines of a Jerusalem Temple, a synagogue, or a Jewish Federation."

I suppose many Jews could argue with that—they have been known to disagree—but I found it interestingly parallel to my own observations of the role of Jews in American politics. And that role has changed dramatically in a very few years. The stereotypes I began covering—the fundraiser/giver and the behind-the-scenes adviser, "the court Jew"—are fading, partly because new political spending laws have cramped traditionally generous Jewish contributors and partly because many of the smart young Jews in politics are no longer satisfied in the backroom. The new role is out front: the candidate.

When I began reporting politics in New York, there had never been a Jewish mayor of the city with more Jews than any other place in the world. And Jewish political leaders generally thought that was a good thing—Alex Rose, the wise old leader of the heavily Jewish Liberal Party thought Jewish candidates at the top of the ticket would not only run badly, but would trigger latent anti-Semitism. Since then, two Jews have been elected mayor, and by 1978, young Jewish politicians were contending for every elective office in sight. In fact, politics in New York and California is often just the wary circling of Jewish men and women in their thirties who think of themselves as mayors, governors, and United States senators one of these days. And I'm not sure voters know, or particularly care, that Abrams, Goldin, Stein, Holtzman, Waxman, Berman, Levine, Pines, Reiner, and a dozen others are Jewish. What the hell, Nebraska has a Jewish senator.

More than one of those folks occasionally go to sleep thinking that they are going to wake up one day as president. Michael Halberstam wrote a novel that came out last year, *The Wanting of Levine*, based on the premise of a Jew running for president. The book didn't cause much of a stir, perhaps because no one seemed particularly struck by a thought that once seemed so unthinkable. A Jew in the White House—so? ■

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political book notes

Public affairs books to be published in January

The ABC's of Bureaucracy. Robert B. Jansen. Nelson Hall, $11.95. Jansen attempts to portray the failings of bureaucracy with wit and irony, but he has neither the wit nor the sense of irony to pull it off. For a guy who says he is "no stranger to the bureaucratic maze," Jansen offers very little that is original. This is mostly a collection of very conventional complaints about bureaucrats and their agencies, except for one startling twist. Jensen finds one of the most praiseworthy bureaucracies is the Bureau of Reclamation, which has been looked upon in other quarters as the builder and promoter of unnecessary and wasteful pork-barrel projects. But maybe that's because he worked there.

The American Presidency. Richard M. Pious. Basic, $16.

The Angry Decades: The Sixties. Paul Sann. Crown, $14.95.

Back to the Drawing Board: Planning Livable Cities. Wolf Von Eckardt. New Republic, $10. Von Eckardt, architecture critic for *The Washington Post*, is at his sensible best poking holes in the grand "high-rise" visions of modern architects like Le Corbusier. Unfortunately, he also tries to be a theorist himself and degenerates into aphorism ("We must reintegrate our disintegrating habitat") and banality ("Housing projects should have attractive gateways"). Von Eckardt is particularly enthusiastic about the "new mood" symbolized by the return of the rich to city living. "The city is merely changing functions," he notes with approval. "Rather than being an industrial center, it is becoming a managerial and cultural center, a place of learning and research. . . . " And what of the poor and middle class who are displaced in this "urban renaissance?" No problem. "It has always been an anomaly peculiar to American cities that the poorest people should live on the most expensive real estate—downtown, adjacent to the business and cultural district." With the factories gone from the cities, "it is time that the people who need jobs. . . be given the opportunity to follow them."

Cover-Up: The Politics of Pearl Harbor, 1941-46. Bruce R. Bartlett. Arlington House, $8.95.

The Culture of Narcissism: American Life in an Age of Diminishing Expectations. Christopher Lasch. Norton, $11.95.

Detente or Debacle: Common Sense in U.S.-Soviet Relations. Committee on East-West Accord, eds. Norton, $10.95.

Dialogues on American Politics. Irving Louis Horowitz, Seymour Martin Lipset. Oxford, $10/$2.95.

The Disintegrating West. Mary Kaldor. Hill and Wang, $10. John Kenneth Galbraith says this book is "most interesting, original, important," and *Kirkus Reviews* says it is "profound." We find it paralyzingly dull.

The duPont Family. John D. Gates. Doubleday, $11.95.

Economics, Mental Health and the Law. Jeffrey Rubin. Lexington, $16.50.

Fall In and Cheer. John R. Coyne, Jr. Doubleday, $8.95. The reminiscences and political philosophy of a one-time speechwriter for Richard Nixon, Spiro Agnew, and Gerald Ford. Coyne is genuinely entertaining and insightful when writing about his adventures in the government; his portrayal of the Ford administration as a "Bring on the Clowns" act reminds us to count our blessings with Carter, and he manages to explain how honorable men could work for Agnew and Nixon. The book is weaker when it falls

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into general speculation about the Future of the Republican Party.

First Lady's Lady: With the Fords at the White House. Sheila Rabb Weidenfield. Putnam's, $10.95. A bitchy-lively account of life inside the White House by Betty Ford's former press secretary. When the author worked there the man to know at the White House, a man outsiders never heard of, was the Keeper of the Perks, Bill Gully, who was head of the Military Affairs Office under several presidents. Weidenfield explains:

"As Commander-in-Chief of the Armed Forces, the President has at his disposal the Army, Navy, Air Force, and Marines. That means military protection for the nation, and military perquisites for the White House. The Navy runs the White House Mess, for example, and the Presidential yacht, Sequoia. The Air Force provides a fleet of Presidential planes, ranging from Jet Stars to large transports, to Air Force One, to jumbo jet commando planes. The Army offers a fleet of chauffeured limousines, and the ability to construct anything anytime to help out. Anything. . . . The Marines offer a fleet of choppers. Thus, everything from mess privileges to the ability to hail a helicopter comes from the Military Affairs Office."

The perks still come from the Military Affairs Office, but it is now overseen by a civilian, Marty Beamon, who like so many of his peers, happens to be from Atlanta.

But if Bill Gully has departed, another of Weidenfeld's characters, Dr. Lukash, personal physician to the President and his family, is still there. Lukash may be the only physician in business who practices medicine once every two or three weeks. Apparently he sits around reading and talking to his friends the rest of the time. Weidenfeld suggests that reporters may have nailed the wrong man when they got Peter Bourne. What pills were being popped by Richard Nixon and Betty Ford, and who prescribed them?

—*Charles Peters*

IT'S ELECTION YEAR in Zambia, and Kenneth Kaunda is up for re-election. Kaunda's not *quite* a shoo-in. Kaunda does face the requirement that he receives 50 per cent plus one in a Yes/No vote. The voter can register a Yes by making an X next to a picture of an eagle. Last time out the No symbol was a hyena. This year the government wanted to change it to a snake, but the Electoral Commission said that was going too far, so it's going to be a hare. If elected, Mr. Kaunda pledges democracy for Rhodesians.

For a free copy of the current issue of National Review, write to Dept. W-21 150 East 35th Street, New York, New York 10016.

Herbert Hoover: The Public Life. David Burner. Knopf, $15.95. With the approach of an induced recession (slight, moderate, severe—pick your economist) whose effects and reverberations may coincide neatly with the fiftieth commemoration of the Great Crash, there are no assurances, with this latest biography of Hoover, of lessons learned.

The man in the White House comes from humble, farm origins; he is a self-made, successful businessman; his religious affiliation more than commonly noted, he is celebrated for his humanitarianism; and he is an engineer, with an engineer's stolid faith in organization and technical competence, abhorring the wastefulness of a bloated bureaucracy. When the economy of the nation is threatened, he relies, at first adamantly, on voluntarism, the self-interest that will see the sense in collective restraint. He looks to the business community to set its own house in order and, failing that, to Congress for modest, affordable programs of assistance. But by late 1930, the consensus is that the budget be balanced at almost any cost.

Two years later, claims our author, Hoover has become an advocate of monetary expansion, but Congress, the Democrats in the forefront, remains adamant on the budget, with recommendations that Hoover "cut to the bone" federal expenses, and one congressman advising that the government "cannot go on expending millions of dollars which it has not, whether it be for the unemployed, or for the sick, or for anyone else."

The circumstances of our current economic disarray are unlike those of 1929, all that Hoover feared now being present in the prospect of government domination of the economy. The practitioners of the abysmal science, much less the layman, may not be able to filter any useful analysis from the upside-down parallels found in this book. (As W. W. Kiplinger observed at the time, "The amazing lesson from this depression is that no one knows much about the real causes and effects of *anything*.") But what could be called The Political Education of an Engineer, as against the rather dully rendered biographical detail, makes for

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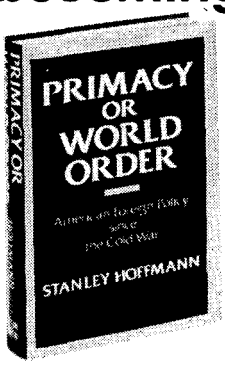
How can we save foreign policy from becoming a plaything for the bullies?



PRIMACY OR WORLD ORDER

American Foreign Policy Since the Cold War

By STANLEY HOFFMANN

Professor of Government, Harvard University, and Chairman of Harvard's Center for European Studies

What have we learned since World War II? What has the Cold War taught us? And Henry Kissinger's balance-of-power alternative? And détente? Why did we fail in Vietnam? And where can Carter's tendency to keep East-West competition alive lead us? What kind of world are we facing? What policies should the U.S. now follow? Where but to disorder, violence, and chaos can any one nation's policy of primacy bring the world?

In analyzing and discussing the reasons why the U.S. must make world order its chief concern and in describing the main difficulties of doing so, this fresh, vividly written book calmly and cogently sets before the reader both general and specific guidelines for an American foreign policy geared to world order.

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Personal Politics. Sara Evans. Knopf, $8.95.

The Powers That Be: Processes of Ruling Class Domination in America. G. William Domhoff. Random House, $10/$3.95. More of the same from Domhoff—one-dimensional, overstated explanations of how the "ruling class" operates, relying for "proof" on too-familiar tales (the Lockheed loan, the Council on Foreign Relations), or on footnotes to the author's previous works. As in his other books, Domhoff is clearly on to something when he claims that elite groups hold power far out of proportion to their numbers. But making that case effectively requires full fidelity to the nuances of their power, full awareness of its varying motives, and a full rendering of the ways in which it is

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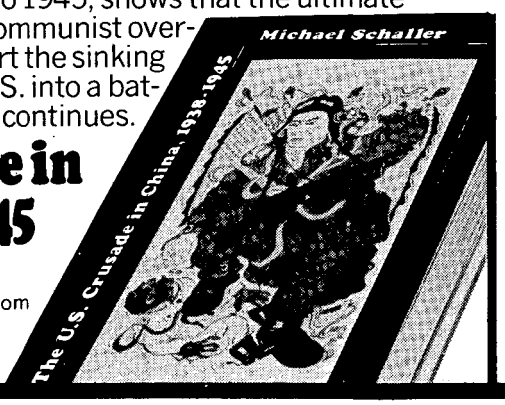

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exercised. That kind of understanding requires, in turn, something more than searching through sociology journals and saving back columns by Jack Anderson. What it demands is a willingness to go out and talk with real human beings, rather than relying on printed sources, since those humans will always be more complex than the academic patterns to which they are reduced. Allowing for their complexity need not dilute the strength of the analytical attack; it only ensures that the attack is more precisely aimed. This failure is especially damaging in a book like this one, whose stated purpose is to provide a detailed picture of *how* the ruling classes exercise their will.

—*James Fallows*

Pressure Cooker. Don Biggs. Norton, $9.95.

Prince of the City: The True Story of a Cop Who Knew Too Much. Robert Daley. Houghton Mifflin, $10.95. "When DeStefano came to the end of the memo, he looked up and said in an anguished voice, 'This is not funny.'

"'You're right,' Leuci said, 'it's not funny. You guys are in a lot of trouble.'

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"'What do you mean, kill him?' cried Leuci angrily. 'I have 75 agents outside with machine guns. They'll blow both of you away.'"

The above is a sample of Robert Daley's overkill in *Prince of the City*. Daley tells us that the saga of Detective Robert "Babyface" Leuci is true. The names and places in Leuci's undercover probe of the corruption in New York City's judicial system are real. But that's hard to believe. Daley's "reconstruction" of the early 1970s investigation is dramatized almost beyond recognition.

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—*Julia Rose*

The Sociology of Urban Education: Desegregation and Integration. Charles Vert Willie. Lexington, $16.95.

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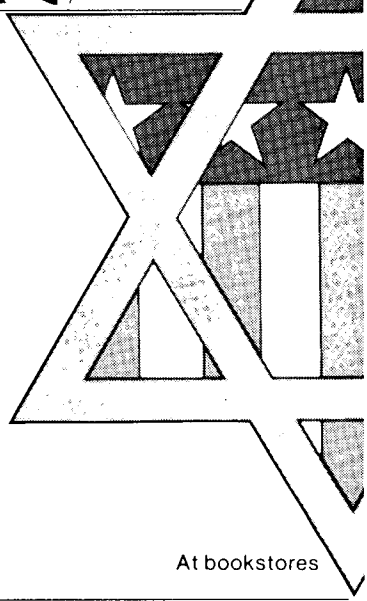

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